



***Title:*** SOCIAL VENTURE MOVE – MICROCREDIT – CASE STUDY

***Purpose:*** Dissertation for obtaining Master of Science in Business Administration

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***Date:*** 13 January 2012

## ABSTRACT

This study and its teaching note have the purpose of tracing the path of a social microfinance start-up in Mozambique - MOVE - and the obstacles regarding the lending to the fishermen informal sector, the group with the highest default return rate. The document summarizes the critical key points and analyses them in order to strategize a set of solutions that can avoid or minimize such high default rates in the future. The whole project has been developed in Mozambique, and this is part of MOVE's first experience in microfinance within local communities in peripheral/underdeveloped economies. It was started by recently graduated students who sought to put in practice theories in Microcredit assimilated during their academic formation, in order to produce tangible social and economic change.

Since solutions and proposals in this field are yet far from consensual, one of the most important issues regarding this case-study was precisely to analyse multiple approaches, according to different existing theories, which could lead to a potentially sound solution that will hopefully avoid identical challenges and adversities in other underdeveloped economies such as São Tomé, East Timor and other regions of Mozambique in a near future.

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## INTRODUCTION

“Why isn't the fishermen community paying its microloans in the Island of Mozambique to MOVE?” is the question underlying this thesis. It is so because finding an answer to this question is vital for us to understand what mistakes have been made, and what responses can be deployed that will allow MOVE to continue spreading its effort to other countries, with better return rates than the ones identified in Mozambique among the fishermen sector.

When setting up a start-up in a relatively unknown field, such as MOVE's foray into the Island of Mozambique, it is important first to develop a thorough market analysis, both in economic and socio-cultural terms, and also identify potential threats in order not only to avoid them, but also to insure that those threats are dealt with and can later become opportunities. When MOVE began its activities, there were many aspects that were not taken into account, due to lack of expertise in the field and a certain level of inexperience approaching this topic. Having later understood the multiple implications and variables regarding such an effort, one of the most important goals of this thesis became clear: to present a real case study and turn the readers into loan officers, so they could experiment a real scenario and be confronted with real decisions to take, based on existing microcredit theories.

The document will take the reader through a 9 month journey in the Island of Mozambique, where, the author believes, it is the combination and the cumulative effects of small changes in attitude and values that will create a major impact in a near future. Thus, it is of great importance that the reader understands the purpose of MOVE and its long-term goals – to improve the living standards of individuals, their families and the community's capabilities to run businesses, and consequently improve the Mozambican economy. In fact, these goals are essential because the focus lies entirely on the people, not on the profitability of MOVE.

Throughout this journey, the description of the theory of microfinance/microcredit is also fundamental because it is the confrontation between theory and practice that makes this example educationally relevant and creates enthusiasm in the reader, since any active participation from that target can contribute to more conscious, strategic and positively affecting solutions in the future. As a matter of fact, if that happened, the reader would have an active saying and real consequences in the MOVE's human field work.

Although there is a large volume of information that could be found on these pages, a selection was made so that the reader finds the key points, not only regarding the case, but also its track record and further developments as well. As so, any solutions created by the reader/student might not fit exactly into an effective solution for the problems outlined in this document, as additional details, implicit but not necessarily layed out in this text, would be necessary to better assist the reader/student in bridging the gap between theory and practice. Nevertheless, they are most likely presented in the teacher's notes, which is why both documents are very important since they complement each other.

Let the journey begin.

# **Social Venture MOVE – Microcredit**

## **Case Study**

António Nunes, CEO of Move – a Social Venture which goal is to promote Microcredit and entrepreneurship among the poorest –, was looking to Tagus River, through the window of his house, after hanging up the telephone with his team in the field, the Island of Mozambique. He was trying to understand what went wrong with the fishermen. When he had been there, people trusted the team, and payments were being made in a weekly basis. Right now the project was going well, but the fact that the fishermen – one of the most profitable activities in the Island of Mozambique – were not paying (“the fishermen problem”) was intriguing him. MOVE had a default rate<sup>1</sup> of only 10% overall, but the fishermen’s default rate was almost 100%.

As mentioned, the fishermen, a profitable group according to their business plans and the researched data, were simply not paying, and one of them almost tried to run away once (the fishermen had clearly become a problem). António was stuck and very confused, because he could not understand what had gone wrong, and was sceptical looking to the future. What seemed once a brilliant idea, was now very foggy, and MOVE’s future depended on giving more loans, or stopping the operations. It did not make sense to keep going without understanding where the main problem was, in order to not repeat it, and also in order to bridge it.

More than 100 million people in the whole world benefited from Microcredit and António wanted to increase this number. But he was not sure how.

What should happen now, said António to himself? Should he continue his project?

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### TEAM

In the beginning of 2009 António knew already he had a job at a major consultancy firm after graduating from his business degree at Universidade Católica Portuguesa. And despite being proud of that, he felt that there was something missing. He felt he should do something to leave a footprint in the world, even if it meant to put his own life in stand-by for a while.

Having won the best student of the year award, and having as his principle to always look for new and harder goals, António analysed his ideas of changing the world, and understood that the best way to do it (and the way he knew how) was through entrepreneurship, since entrepreneurs were natural change makers. And because he wanted to go abroad, to places where his impact would have major significance, he decided to go to Africa. But he needed a partner to join him in this adventure. A partner who shared his ideas and could help him transform it into something real.

One day, when going to an event (Energy Week) organized by the ex-minister Manuel Pinho, António lost the bus and met Rita Ribeiro da Silva (who had also lost the bus), a very good student as well and Assistant Professor at Universidade Católica. Just like António, Rita had had a job offer at a very well know consultancy firm. And just like António she also felt she could take a month off in her life to make a difference, since she had a dream of having real and important impact on people’s life before starting a business career in a consultancy group.

So with nothing solid on their minds yet, they started to build a plan. But where should they head to? And what should they do, in concrete?

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<sup>1</sup> Amount to pay/total lent

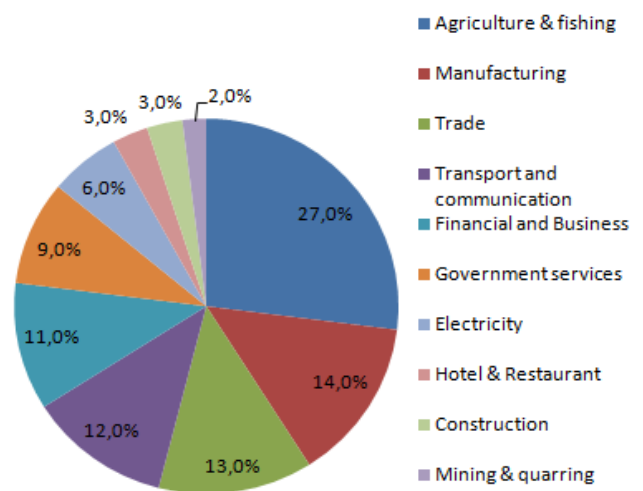
After weeks analysing all the PALOPs – *Países Africanos de Língua Oficial Portuguesa*<sup>2</sup> - they decided to go to Mozambique.

**MOZAMBIQUE**

According to the research of António and Rita, Mozambique – a country in the Southeast of Africa had an area<sup>3</sup> of almost 800 km<sup>2</sup>, and was the 35<sup>th</sup> largest country in the world and the 16<sup>th</sup> largest in Africa. It was about 12 times smaller than the USA, ¼ the size of Angola and about 9 times larger than Portugal. The country was divided in 11 administrative provinces, one of which is Maputo (former Lourenço Marques) the capital city located in the southern side of the country. Its population reached 23M, and 70% of them lived in the rural areas.

Even though they have many dialects, the official language was Portuguese. Mozambique had been independent since 1975, and still they had always kept very close to the Portuguese culture as well. In fact, nowadays there were many Portuguese habits still, such as the referred language, legal system, and religion. In addition, they still felt very emotionally connected to Portugal, as they supported fervently Portuguese soccer teams and watched daily Portuguese soap-operas.

Even so, Mozambique was a “three countries” as Mark Hankins stated in one of his studies<sup>4</sup>. It was extremely poor, but it had many natural resources such as coal, titanium and natural gas. Furthermore, its landscapes, wildlife and beautiful beaches had a huge tourism potential. Its population growth rate was 2.4% and Mozambique’s GDP was \$21.81<sup>5</sup> billion. Nevertheless, it had a quite high Gini index of 0,47 still. The sectors that contribute the most to create richness (GDP) were agriculture and fishing: 27%; Manufacturing: 14%; Trade: 13%; Transportation and Communications: 12%; and Financial Services and Business: 11%, as it is possible to see in the chart presented.<sup>6</sup>



Even though in the latest years Mozambican Economy had been decelerating, the country continued to be one of the fastest emergent countries in the Sub-Saharan Africa. In fact, over the last 10 years it had been consistently growing above 7% and above the Sub-Saharan Africa average of 5%, in contrast with Angola which after 2007 has suffered a slowing growth.

By analysing all this data, António e Rita understood that Mozambique was the country to go to, in the first approach.

<sup>2</sup> African Countries with Portuguese as their official language

<sup>3</sup> INE Maputo 2011

<sup>4</sup> Chambal, H. (2010). Energy Security in Mozambique

<sup>5</sup> www.cia.gov/library/publications/the-world-factbook/geos/mz.html

<sup>6</sup> http://focusafrica.gov.in/Sector\_Profile\_Mozambique.html

The following table summarizes the economy data of the country for the period from 2007 to 2012(E)<sup>7</sup>.

	Population	GDP per Capita	GDP Growth	Inflation	Trade Balance	Public Debt	External Debt	Interest Rates
Units	million	\$	%	%	M\$	%GDP	M\$	%
2007	21.8	789	7.3	8.2	-785	34.1	2966	19.5
2008	22.3	842	6.7	10.3	-1179	32.2	3450	18.3
2009	22.9	888	6.3	3	-1171	38.8	4169	15.7
2010	23.4	933	6.5	13	-1210	47.5	4893	16.3
2011E	23.9	992	7.3	7.5	1518	47.8	5486	16.5
2012E	24.5	1070	7.5	5	1392	45.3	5599	17.5

Figure 1 - Economic Data of Mozambique 2007-2012E

As mentioned previously, GDP per capita was increasing, and the purchase power was increasing as well. But Mozambique was far from having the majority of their population with enough money to be able to break the cycle of extreme poverty and build their own business, for instance. Most of them did not have (involuntarily) access to financial instruments, for various reasons, such as physical access, or lack of collateral, which did not help them to change their lives and give a better future to their descendents. “But Move could bring the change” – thought the CEOs of the Social Venture.

## MICROCREDIT

António was really found of Microcredit and its accomplishments. There had always been people with fewer rights than others and this was also true to accessibility to credit. For many centuries, the only ways several people could get credits was through moneylenders, friends, pawnbrokers, and so on. Those methods were helpful in daily basis, but would not take people out of their poor situation, either because it was not enough for that, or because at some point, there were people who would take advantage of their wealthier circumstances and would charge incredibly high interest rates in short amounts of time, which would enrich them, but would not be positive for the borrowers. Yet, it was their only way to survive, and that is the reason why people would take this “aid”. It was exactly by observing this unfair (slavery) situation that microfinance was created in 1976, with the foundation of Grameen Bank by Professor Muhammad Yunus (later – 2006 – awarded with the Nobel Peace Prize).

This new system was so greatly accepted that by 1997, Grameen Bank had a portfolio of €260 million, and 2.3 million members, as well as the 200 surveyed microfinance organizations in 1996 said that they were holding loans worth \$7 billion and savings accounts worth \$19 billion. In fact, microfinance was such a promising instrument that Mark Schreiner<sup>8</sup> called it in 2003 “(perhaps) the fastest-growing and most widely recognized anti-poverty tool”<sup>9</sup>.

But what was microfinance after all? And how could this be addressed to the entrepreneurs in Mozambique?

<sup>7</sup> The economist intelligence report (2011) (Due to a loss of sources, it was not possible to find the report with more detail)

<sup>8</sup> A Senior Scholar at the Centre for Social Development at Washington University in St. Louis

<sup>9</sup> Schreiner, M. (2003). A Cost-Effectiveness Analysis of the Grameen Bank of Bangladesh

It was a way to improve extremely poor people's lives by giving them the right to ask for loans (\$100 world's average) or use saving services. By doing so, people were able to buy raw materials, for instance, and produce their own products, managing their profit at the end of the day, which enabled them most of the times to save some money to buy more food, have their kids in schools, improve their houses (for example) and pay their debt. Overall, according to Muhammad Yunus this method's objectives was not only to reduce poverty, but also to affect health, education and very important, gender empowerment. Microcredit, on the other hand, was one of the products of microfinance related to lending small amounts of money to extremely poor people (as mentioned previously). To begin with, even though Microfinance was more complete, Move decided to focus merely on Microcredit.

Traditionally, women were the most interesting target since they were seen as better payers and more stable, due to their position in the family. Besides, they also invested their money in shelter, children and food, which helped improving the life of the whole family. Usually men, nonetheless, had better ideas and were more entrepreneurs. There must be a balance in between in order to progress not only the lives of the related people, but also the global economy of the borrower's village, country, or continent.

According to several Microfinance Institutions (MFIs) and to the Women's World Banking, each situation of microfinance should be analysed from scratch, since what worked in some cases might not work in others, due to culture, physical place, competitors and the population. The vision and culture of the MFI would also contribute to the success of this system. For Yunus, for example, the most important feature was the "end" of poverty, and the way to do it was through individual people "I always told our project personnel that they would shift their attention away from the particular product they were offering to the people they were serving"<sup>10</sup>, and actually, in this case, Yunus had focused mainly on women – 97% of Grameen Bank's borrowers were women<sup>11</sup> -, and in low interest rates.

There were several methods to work with microcredit, including lending individually or to groups. When it comes to group lending (which is the method initially used at Grameen Bank), the groups were composed by five people, and many groups altogether (five to eight) formed a centre, which had a chief. The members of each centre must meet with the loan officer weekly, in order to validate how everything was going and to make sure the loan officer was not surprised by members who were not behaving correctly (not paying the loan). It was important to keep the group close to the loan officer, so they felt the responsibility. Usually, there were collateral when money was borrowed, nonetheless when people lived in such poverty state that did not own anything valuable to the Bank, or MFIs, it was important to use "collateralization". This referred to social pressure, since people fear losing the access to possible future credit loans, which was quite prone to happen if there was default by one of the group people. As so, and in order to bridge this issue, joint liability was created to reduce the risk of default. Joint liability allowed screening costs to be cut, it created peer pressure so all the members feel obliged to pay, and members were encourage to pay others' debt when default. Although this technique was very effective, it created a risk of a domino effect.

Individual lending, on the other hand, had a different approach, since the initial due diligences had to be done much deeper, since peer pressure in this case was not so relevant. Even though group meetings could exist, in this case the individual was totally responsible for her/his loan.

It seems a riskier business, so why did individual loans appear?

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<sup>10</sup> Yunus, M. (1999). The banker to the poor (pp.101). Uk: Aurum Press

<sup>11</sup> Grameen Bank Website - [http://www.grameen.com/index.php?option=com\\_content&task=view&id=26&Itemid=175](http://www.grameen.com/index.php?option=com_content&task=view&id=26&Itemid=175)



When microcredit was being used in a society that presented several changes (increase diversity or population density), social interconnection and peer pressure was lower. And in contrast to individual lending, group lending limited the chance of operations to grow (maturity and diversification), resulting in reduced operational costs per loan (20 cents/loan instead of 37). Individual lending permitted to exclude defaulting borrowers to future access to loans in an easier way and rewarded better the ones who had a good behavior.

Of course both methods had up and down sides, and each system could be adapted (and several times was) to different environments, since mechanisms that work in one place do not necessarily work in another.

This boom of microcredit had some unexpected results: by understanding the success of MFI, and the potential of serving millions of lower income people, some banks started to downscale in order to capture this kind of clients, since they could give not only profitable returns in the future (the rate of asking for second time loans was high), but they could also be very profitable when analysing the whole picture (the margins were lower, but their quantity would be huge). Furthermore, the risk of not paying was not very high, as long as the whole process was well established. With the Grameen Bank, for instance, the loan recovery rate is 97%. By doing so, financial exclusion has becoming lower, yet too high still.

### MICROCREDIT IN MOZAMBIQUE

As with most of the matters, it was quite hard to measure success of microcredit in Africa due to lack or inaccuracy of data. Until 2010, there were 492 Microfinance Institutions throughout the whole Africa continent (note that there are other sources of Microfinance, such as Non-Governmental Organizations (NGOs), or Commercial Banks, among others), being distributed as seen in the map below (2010)<sup>12</sup>.

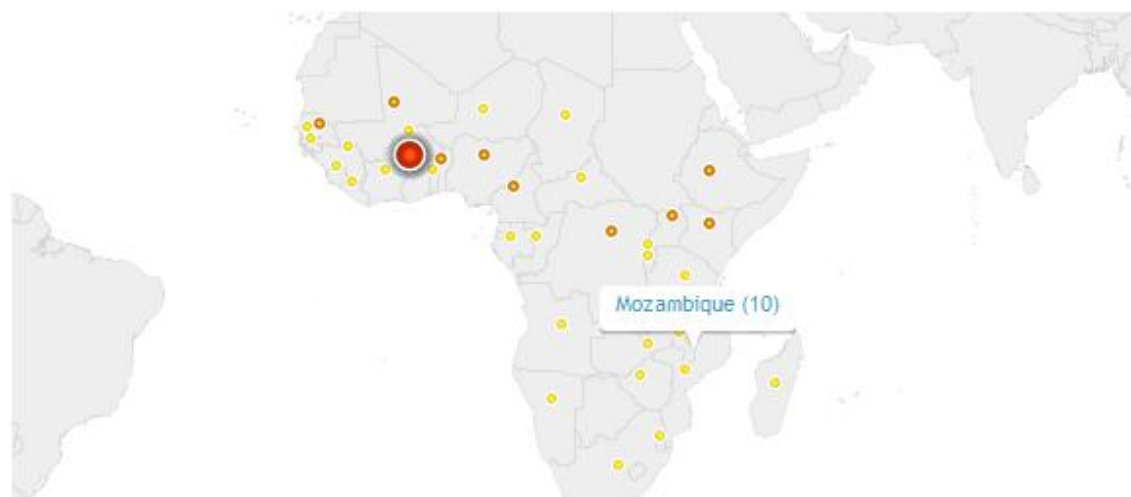


Figure 2 - Microfinance Institutes across Africa (10 in Mozambique)

In this map it is possible to see that the concentration of MFIs was both in the East and Western Africa. The average loan balance per borrower in Africa was \$368.3 and there were 4.4 million of active borrowers. In this country, in 2003, 63% of borrowers were women, against the 86% average in South Asia, 80% in the Middle East and North

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<sup>12</sup> MixMarket Website - <http://mixmarket.org/mfi/region/Africa>

Africa, 76% in East Asia and Pacific, 60% in Latin America and the Caribbean and 58% in Eastern Europe and Central Asia<sup>13</sup>.

According to a report<sup>14</sup> from the Microfinance Information Exchange and the Consultative Group to Assist the Poor, the growth trends in the Sub-Saharan Africa in 2009 were that the only borrower growth that had not slowed was the deposit mobilizing MFIs and it also stated that the average loan balance had increased. On the other hand, when it came to deposits, they had increased, even though the average sized had decreased significantly.

Analysing the Mozambique market in this matter, it was possible to see that it started back in 1989 with the creation of the Urban Enterprise Credit Fund. During the 90s, despite the existence of a few MFI, the main sources of microcredit were linked to several NGOs with experience in microcredit, which took this matter to more rural places, instead of focusing in a bigger (and more potential) market such as Maputo. Later on, it started to appear a shift on the focus towards urban areas, where the government was very involved, since rural microcredit was considered to “have little prospect of attaining financial sustainability within the commonly accepted “norm” of about five years”<sup>15</sup>.

Even though this business had been growing, truth was that it was quite small yet compared to many other countries in Africa. The 10 mentioned MFIs manage to have loans in the value of 39.6 million, while Tanzania, for instance (who had only more 3 MFIs than Mozambique) had almost this value doubled (63.7 million in loans). The average loan was between \$400 and \$500 and between 1997 and 2005 there had been a transition of the type of operators providing microcredit, as it can be seen in the graph below<sup>16</sup>:

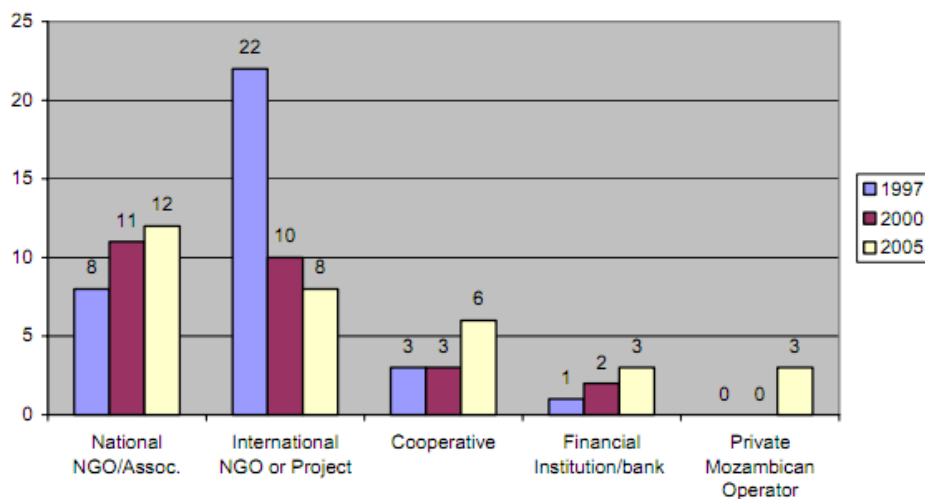


Figure 3 - Microcredit Operators between 1997-2005

<sup>13</sup> Lafourcade, A., & Isern, J., & Mwangi, P. (2005). Matthew Brown Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa

<sup>14</sup> Microfinance Information Exchange (MIX) and Consultative Group to Assist the Poor (CGAP) (2010). Sub-Saharan Africa 2009 - MICROFINANCE ANALYSIS AND BENCHMARKING REPORT

<sup>15</sup> Vletter, F. de (2006). MICROFINANCE IN MOZAMBIQUE Achievements, Prospects & Challenges

<sup>16</sup> Vletter, F. de (2006). MICROFINANCE IN MOZAMBIQUE Achievements, Prospects & Challenges

When it comes to gender, despite studies in other countries, the tendency in Mozambique was to have an almost even distribution between women and men in terms of beneficiaries. Nonetheless, examining closer, the disparity was huge between the North and South of the country, having the South much more women than men, and the North, the other way around.

### MOVE

Rita and António analysed this whole picture, understanding very well the data, and trying to match it with their goal. After several days, they decided that Mozambique was the chosen place, due to its closeness to Portugal when it comes to culture and language and its economic potential (there were plenty opportunities to start businesses). In addition, microcredit was the way they were going to approach their goal, since in Mozambique, it was not at its full potential, so they had a great path to walk (there were several associations, but the scale was yet very low). In fact, the Island of Mozambique had many people with ideas, but nowhere to finance them. On the other hand, there were several Portuguese companies with great relations to Mozambique, which would be an open door when they were going to pitch for their idea, or looking for sponsorships. Furthermore, they thought it would be easier to build this plan if they had some support not only in Portugal, but also in the field, and they found it in the Island of Mozambique. With a logistic platform quite clear and great market knowledge, they were confident enough to think about everything very clearly, and very deeply.

Who should they start pitching the main idea to?

They had two first goals: to find a team and to find funding for the idea which they started doing at the same time. Due to their exceptional course in the university, they have approached some professors and the director, reaching approval and support. They also interact with both Millennium BCP and BPI; Pestana Group and Jerónimo Martins. Everyone seemed very interested in the project, and Millennium BCP (bim in Mozambique) was chosen to support Move's loans to entrepreneurs. On the other hand, Pestana Group provided four flights and Luis Brito (the launcher of Biedronka – Jerónimo Martins Dystrybucja S.A.), individually was very fond of the idea, which encouraged António e Rita to pursue their intentions.

In the meantime, a team was being put together to go to Mozambique with Rita (in June), since António was at an internship at Magnum Capital, with the goal of learning how to spot a good opportunity to do business, and how to do due diligence. That was essential to the success of their project.

Before going to Mozambique it was important to have everything planned in Portugal. The team needed to know who they should talk to at the Bank in Maputo, who had important positions locally, the idea of creating a talent-bank in order to understand the market and the people and the idea of using individual lending.

Once they arrived, at the Island (even though the contracts with the bank were not all defined), they spoke to the councilman of the economic activities with the purpose of making an excel file with 100 people and their businesses, so they would understand with whom were they going to deal with, and what was the market like. At the same time, part of the team was publicizing their intentions and speaking with everyone in order to capture possible future entrepreneurs or entrepreneurs who for some reason lacked the money to go further. In the first approach they have spoken to half of the population of the island (about 7000), and managed filter the applications to 500. Then they have analysed profiles by talking to them and having several questions answered. The following week was to

make Business Plans and understand if it was a viable business or not (which included field work with many groups: possible competitors, random people, the “*secretários de Bairro*” who had the power within each neighbourhood, suppliers and possible clients).

Having everything sorted out, by realizing that certain businesses would not work, they selected 50 people and went to their houses in order to meet the family, know where they lived and understand as accurate as possible, who these people were. This took about two weeks.

What were exactly the criteria to borrow the money?

People who tried to access Move’s microcredits were chosen through some criteria both quantitative and qualitative. In the first place, the team had to understand if the idea was creating value to her/him and to society. On the other hand, her/his background and household were checked upon, in order to comprehend what the money would be for and to be aware of her/his possible life plans. To have children was relevant, as well as to have children in school (or if it was important to the parent to have them in school). Besides, the experience in that or any other area, and her/his knowledge of the market she/he wanted to enter (or expand) was also a necessity for the team.

In this first approach her/his earnest and motivations were analysed and measured as best as possible. If it was an approved case, further criteria would be used, as a profitable business plan (this factor by itself was a reason to exclude if it was not a profit<sup>17</sup> business), and the opinions of the leaders where the person lived. It was also mandatory not to have any credit default in the past within Millennium bim. Only by passing throughout this (which would take about 2 week), and attending to a business course during a week, the person was able to have access to the loan.

In the meantime, António arrived at Maputo with another member of the team and closed the partnership contract. When they arrived at the Island, there were already 20 chosen people and there was a lot of bureaucracy to do (such as signing the papers). This took about 3 days, since it was too complicated to take everyone to the Bank, and we would go and look for the people with the papers (several times, the manager would forget to mention certain mandatory signing papers, and we would have to go and search the people again). It is important to bear in mind that most of this people did not have a cell-phone, there were not addresses (most of the roads was not identified), and several did not have identification cards either (which was mandatory to the whole process), which made some of them not know their age, for example.

The first team left the Island, and 3 more people arrived when everyone was already chosen. The initial idea of Rita and António was to have one period of loans and return to Portugal with their will satisfied. But at some point, they started receiving feedback from Portugal of interested people to come as well, to keep the job that they had started and perpetuate this social entrepreneurship. As so, people from *Universidade Católica* started to recruit people by interviewing them. Another team of 5 was closed within 2 weeks, with the approval of the team who was in the Island, since they knew what was needed from a volunteer.

During all this many activities, the loans took a while to be approved (about 1 month) and once they were, the team went shopping with the entrepreneurs. The majority of the MFI give the money to the entrepreneurs, but in order to

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<sup>17</sup> By profit it means that both variable and fixed costs are taken into account to understand if the operation activity of the proposed project is viable – see appendix.

guarantee that the money was well spent (even with all the people screening made), not to give directly the money was thought to be the best approach.

When it comes to enforce payments, there were not many incentives to get the people to pay, therefore, because they did not have collateral, Move would never give the people the money itself in order to try to have the default rate as low as possible. The main incentives were fear of what could happen (even though they did not really know what the consequences were), the fact that they could not ask for a loan again if the first was not paid, and the shame of having the team always at their door or other peers – peer pressure - “uses moral and other linkages between borrowers and project participants to ensure participation and repayment in microcredit programmes”<sup>18</sup>. Nonetheless, to different people and sectors, this kind of pressure might work in different (and opposite) ways as well. There were also positive incentives, such as seeing the ones who paid getting rewarded with goods and a celebration (that included the team and the entrepreneurs). Their names followed by kind words such as “congratulations, Lucia did it” were also spread in many places of the island.

Those people had never seen credit before, and they did not really understand how it worked (even though they became better after Move’s business classes who lasted a week, to make sure people knew exactly basic economic concepts as “profit”, “minimum price”, “stock”, among others). The people of the Island (and many Mozambicans generally) were used to foreign help and money was always given away, never lent which was a problem for the team. Nevertheless, and as Yunnus mentioned in his book “why not give?! For just a few pennies we can alleviate our conscience (...). But is this useful? No, most of the time it is actually harmful”<sup>19</sup>. And this was exactly what was underneath the team’s mind: to give them responsibility (but never too much), to make them understand that they were going to own something, but that it was only entirely theirs when they had finished the payments.

After all, the population had not many opportunities to have access to loans, since the Bank would not even evaluate their situation (too poor to be trusted). As so, the only alternatives were the associations that they would do within themselves, but that would mean that they had to save money to participate (which was not very easy in some cases). Besides, they did not trust entirely in each other, and so the basis to do an association starts out very weak. The last choice was through the *Fundo de Iniciativas Locais*, which was money that would come from the Government and would be lent with lower interest rate than Move’s (19%). This last one was very interesting from the population’s point of view, since most of the times they managed to get the money and not pay it back without punishment (in 2008, \$258120.93 was given through this fund to 128 Mozambican districts<sup>20</sup>).

### FISHERMEN

Among the chosen 20 entrepreneurs, there was a group of six individual fishermen whose business plans were giving very good returns, as the one shown in Appendix 1 (Abudo Mustafa’s business model). They would need only some nets and fishermen rope to increase their business.

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<sup>18</sup> Grameen Bank Website - [http://www.grameen-info.org/index.php?option=com\\_content&task=view&id=43&Itemid=93](http://www.grameen-info.org/index.php?option=com_content&task=view&id=43&Itemid=93)

<sup>19</sup> Yunnus, M. (2009). *The banker to the poor* (pp.22). UK: Aurum Press

<sup>20</sup> Mozambican’s Government Website - [http://www.portaldogoverno.gov.mz/noticias/news\\_folder\\_econom\\_neg/abril-2011/reembolso-dos-sete-milhoes-continua-baixo-em-gaza/](http://www.portaldogoverno.gov.mz/noticias/news_folder_econom_neg/abril-2011/reembolso-dos-sete-milhoes-continua-baixo-em-gaza/)

All the fishermen had similar routines relating to their business. They used to get up really early (4 am) to go fishing and would return only at night (6 pm). There were two types of fishermen: the ones who used to fish along the coast and the ones who used to go some kilometres away from it. These last ones used to catch bigger fish, which could be sold at a more expensive price, but they would also need a bigger vessel and more men to accompany them.

Furthermore, in order to try to catch more fish they go on one day to throw the nets and will return in the following one to pick them up. On the other hand, the fishermen that would go along the coast were able to have lower revenues, but since they had smaller vessels and would fish alone in most cases, they would also have lower costs. It is important to understand that salaries to the other fishermen who are in the boat are variable according to what has been fished (for instance, half is for the owner of the boat and the other half is distributed among all the helpers. This is not a must method, since it also depends on how much has been fished, because if it is just a few fish, the fishermen distribute the harvest more evenly). When arriving to the beach, the fishermen sell what has been caught to distributors (who manage to have profits of about 200%, whilst fishermen have very low margins). As so, they have to concentrate on quantity of fish in order to obtain good profits. Another critical issue would be that fishing is a seasonal activity, and it is dependent on the weather and water conditions. The worse months at the Island of Mozambique are between May and September. This does not mean that the rest of the year they will have fish, but that it is more probable to happen. At least, the sea has a rocky ground with coral, and that might (and most of the times do) tear the nets.

When starting the operations, the team went shopping with all the entrepreneurs. Nevertheless, because this kind of material was harder to find, Abudo Mustafa, Chale Momade and Adamo Braimo (three fishermen) went by themselves, bringing all the receipts to their loan officer. Although the team has used the individual lending method, this group has always been very close to each other, being helpful whenever one of them would need.

When the six fishermen were chosen they knew each other, but they were not close. The team decided to have the same loan officer to every fishermen in order to understand better the business and know the peers in the best way possible. In the first weekly meeting (that three of them missed because they were fishing) a tighter group was defined naturally and from then on, the three men referred above were definitely the ones who would pay more regularly and would come to their loan officer to always report how things were going.

Even though in the first two months all the fishermen paid regularly, the fact that this activity depended on the sea and weather conditions, which was not predicted by the team, ended up in a crisis of this activity, which was a problem within those entrepreneurs as well. A shift of their behaviour was noticed, since the payments started to be less regular, although they kept coming to the loan officer with their results and the money they could gather (sometimes they would have to pay 100MTZ and would only deliver 20MZT – which was almost the value of the interest – 18.5%). The loan officer tried to monitor from as close as possible, but if the entrepreneurs were not able to fish, it was quite difficult to have income, and therefore, to pay their debt.

After three months, Adubo, Chale and Adamo had their loans (six month loans) paid about 30% and Adamo was so regular that the loan officer gave him a t-shirt as a reward. He was very proud, and bragged about it trying to keep his status as much as possible. On the other hand, Selemene, Gulamo and Sekeneke had less than 25% of their loan paid. All of them kept coming to the loan officer, but several times they would come either with less amounts than what they were expected, or they would come only to say that they could not pay, reporting the reasons. The main

reason was mainly related to the offseason period that fishing had to go through every year, and which was not accounted for by the loan officers).

According to the loan officer, all of them were very engaged to pay, even though some paid more often than others (the way of fishing was not the same to all of them – different nets and boats).

After 4 months and a half of lending, the team left the island explaining that a new team would come, and they left for a month a local woman in charge of the operations. She was required to send a report weekly of how things were going, and would collect the payments. Moazisa had a salary during that month and all the expenses paid related to the project.

Before arriving, the new team had meetings in Portugal with the previous ones to know who the entrepreneurs were and to understand how the processes worked. Everything seemed clear, and the team was ready to land on the Island.

The new team also had a manual with all the bureaucracy needed, all the important people listed, a map saying where the entrepreneurs lived and their pictures, and all the information that was possible to be written. This enabled them to know who they should head up to and what the first steps were. A meeting with Moazisa was indispensable and she explained that several entrepreneurs had paid, but many did not, and did not even show up to the weekly meetings. Among those were the fishermen.

After one week of searching for everyone, and presenting themselves, the team was already recognized in the field, and payments started to appear, except for the fishermen, who were the hardest to find as well (there are not addresses in the Island). Once one fisherman was identified – Sekeneke – he introduced the team to all of the others, who explained them the weather conditions and the problems they were suffering from. Abudo, Adamo and Chale were not as helpful as the previous loan officer has mentioned and their visits were not as regular as described before either. Nevertheless, after almost a month of contact, Adamo was trying hard to manage to deliver the expected payment. Nevertheless, because the loan was already in default, all that he was paying was interest, which was difficult for him to understand, due to his level of financial education. After several meetings and long hours searching for the fishermen, some trust was built, but payments barely ceased from the people of the fishing sector.

All the other entrepreneurs were paying (except for one), what should the team do now, in order to have the fishermen paying as the other entrepreneurs did? And what should they do, so this situation would not happen again in the future?

### Questions:

- Why were the fishermen such a difficult sector, if they are among the ones who contribute the most to Mozambique's GDP?
- Should the team give the money directly to the entrepreneurs instead of going shopping with them?
- How does peer-pressure work in a negative way? Could this happen in the case of the fishermen?
- What is the main difference between the reasons of a MFI to operate with microcredit and a regular institution (Bank) to operate with similar products, to similar activities?

### Broader questions:

- What should the loan officers have been done differently in the first place?
- How do you design an incentive scheme thinking about maximizing utility for both the debtor and creditor in this interaction process?



## APPENDIX

### Abudo Mustafa

#### Highlights

- Fishing business in expansion
- Several years of activity
- Scholar level below average

#### The Business Model

Fishing is a very important activity in the Island of Mozambique. Fishermen, of bigger or lower dimension, go fish early morning and sell it to distributors who will sell the fish to the final client, once they arrive at the beach. In most cases, the majority of the fish is sold in the Island or close to it, and the rest will be sold in more interior zones such as Nampula.

#### Market

##### Demand

Assumptions:

- Consumption of 15 meals of fish monthly
- 40.000 - population in the district of the Island of Mozambique
- Each meal contains 150gr of fish

Monthly there is a consumption of 90 ton of fish, considering only the internal market. When considering a larger market, such as Nampula and surrounds, the market would be much bigger.

Fishing is positioned in the food market as a non expensive product and where its consumption is reasonably regular among the majority of the population.

The market is relatively acyclic and does not seem to suffer from seasonal issues, although there are peaks of consumption during festivity periods and in the end of Ramadan.

The demand drivers are positioned in order to allow an increase of the consumption among medium and long term. The tendency of the population's evolution is of growing, even though there is a tendency of them to move to the continent. In fact, the relevant market as a whole – continent and surroundings – is going to grow. The development of the tourism associated to the expected public works of the region and to the natural economic growth will allow the country a sustained increasing level of income. This will enable a positive effect on demand.

##### Supply

The fishing market in the Island of Mozambique has approximately 60 fishing boats, and the average of workers in each is of about 10 fishermen. All the fish caught by those people is sold. The 60 existing boats fish an average of 15 boxes of 30kgs per week, according to the market research done by the team. Based on this information, it is possible to estimate that about 116ton of fish is fished per month. This supply is slightly higher than the demand mentioned previously, due to the fact that this is a coastal zone; therefore it is not to worry. In fact, the majority of the fish that is not sold in the Island is easily sold in Nampula.

### **Company**

Mister Abudo owns a fishing boat where he fishes along with other 10 workers. Some of his fish is sometimes sold in Nampula. Since the existing fish of the Island of Mozambique is fairly undifferentiated, it is mister Abudo's expertise that will allow him to have an unfair advantage.

### **The entrepreneur**

Mister Abudo is 27 years old. He studied until 6th grade and has been in the fishing sector for years which enable him to accumulate business relevant experience, giving him expertise. The young age and his strong will in expanding his business, leads Mister Abudo to be an entrepreneur with a great possibility to succeed.

The boat is his and he has not any passive. He has also 4 children and all of them go to school.

### **Impact**

#### **Business**

The purchase of these two additional nets will enable him to increase its productive capacity without incrementing structure costs. Additionally, he manages to grant to his clients the existence of a great variety of stocks which translates in a bigger loyalty of his usual clients, as well as an increment on the number of existing clients.

#### **Family**

It is estimated that after the total loan payment, the family income will increase from 8000 Mts to 9600 Mts monthly.

### **Financial Analysis (below)**

ANÁLISE DE PROJECTO

Actividade Existente x  
Início de Actividade

INFORMAÇÃO PRELIMINAR

Nome do empreendedor	Abudo Mustafa
Negócio	Pescador
Nº de trabalhadores (total)	10
Anos de actividade	7 anos
Idade	27
Bairro	Quirahi

DEMONSTRAÇÃO DE RESULTADOS ANTES DO CRÉDITO

**Produto #1 Peixe (Caixa de 30Kgs)**  
Ciclo de Produção (dias) 7  
Quantidade Produzida (por ciclo) 10  
**Preço Venda 750.00 MNT**

Custos Variáveis	Custo fornecedor	Transporte	Quantidade	Custo Final
Custo #1 Salários Pescadores	MNT 562.50	- MNT	10	5,625.00 MNT
Custo #2	-	-		- MNT
Custo #3	-	-		- MNT
Custo #4	-	-		- MNT
Custo #5	-	-		- MNT
Custo #6	-	-		- MNT
<b>Total custos</b>				<b>5,625.00 MNT</b>
<b>Margem Contribuição (por ciclo)</b>				<b>1,875.00 MNT</b>
<b>Margem Contribuição mensal</b>				<b>6,035.71 MNT</b>

**Custos Fixos**

Custo #1	- MNT
Custo #2	- MNT
<b>Total custos fixos</b>	<b>- MNT</b>

**EBITDA mensal 8,035.71 MNT**

INVESTIMENTO

Material	Custo fornecedor	Transporte	Quantidade	Custo Final
Material #1 Redes 1,5	6,000.00 MNT	- MNT	2	12,000.00 MNT
Material #2	-	-		- MNT
Material #3	-	-		- MNT
Material #4	-	-		- MNT
Material #5	-	-		- MNT
Material #6	-	-		- MNT
<b>Total Investimento</b>				<b>12,000.00 MNT</b>

SIMULADOR BIM CNV

Valor Compra	12,000.00	Valor Financiado	12,000.00	Comissões	493.70	Seguro de Vida	120	Livrança	123.70	Taxa Fixa	250
Empréstimo	12,617.40										
Taxa de Juro	18.50%										
Prestação	2,300.00										

	Pagamentos	Capital em dívida	Juros Mensais	IS - Juros	Prestação	Amortização
1	Dez/11	12,617.40	194.52	3.89	2,300.00	2,101.59
2	Jan/12	10,515.81	164.33	3.29	2,300.00	2,132.38
3	Fev/12	8,383.43	131.01	2.62	2,300.00	2,166.37
4	Mar/12	6,217.06	97.16	1.94	2,300.00	2,200.90
5	Abr/12	4,016.16	62.76	1.26	2,300.00	2,235.98
6	Mai/12	1,780.18	27.82	0.56	1,808.55	1,780.18
7	Jan/00	0.00	0.00	0.00	0.00	0.00
8	Jan/00	0.00	0.00	0.00	0.00	0.00
9	Jan/00	0.00	0.00	0.00	0.00	0.00
10	Jan/00	0.00	0.00	0.00	0.00	0.00
11	Jan/00	0.00	0.00	0.00	0.00	0.00
12	Jan/00	0.00	0.00	0.00	0.00	0.00
					<b>13,308.55</b>	

DEMONSTRAÇÃO DE RESULTADOS COM/APÓS CRÉDITO

**Produto #1 Peixe(Caixa de 30Kgs)**  
Ciclo de Produção (dias) 7  
Quantidade Produzida (por ciclo) 12  
**Preço Venda 750.00 MNT**

Custos Variáveis	Custo fornecedor	Transporte	Quantidade	Custo Final
Custo #1 Salários Pescadores	562.50 MNT	- MNT	12	6,750.00 MNT
Custo #2	-	-		- MNT
Custo #3	-	-		- MNT
Custo #4	-	-		- MNT
Custo #5	-	-		- MNT
Custo #6	-	-		- MNT
<b>Total custos</b>				<b>6,750.00 MNT</b>
<b>Margem Contribuição (por ciclo)</b>				<b>2,250.00 MNT</b>
<b>Margem Contribuição mensal</b>				<b>9,642.86 MNT</b>

**Custos Fixos**

Custo #1	- MNT
Custo #2	- MNT
<b>Total custos fixos</b>	<b>- MNT</b>

**EBITDA mensal 9,642.86 MNT**

IMPACTO E SIMULAÇÃO DE CENÁRIOS BIM

TAEG (CW suporta comissões) 20.81%

Condições Cases	PVP	Custos
Upside case	10%	-5%
Downside case	-15%	5%

	Pré-empréstimo	Durante empréstimo			Após empréstimo	
		Downside Case	Base Case	Upside Case	Downside Case	Upside Case
Vendas	32,142.86 MNT	32,785.71 MNT	38,571.43 MNT	42,428.57 MNT	32,785.71 MNT	42,428.57 MNT
Custos Variáveis	24,107.14 MNT	30,375.00 MNT	28,928.57 MNT	27,482.14 MNT	30,375.00 MNT	27,482.14 MNT
Margem Contribuição	8,035.71 MNT	2,410.71 MNT	9,642.86 MNT	14,946.43 MNT	2,410.71 MNT	14,946.43 MNT
Custos Fixos	- MNT	- MNT	- MNT	- MNT	- MNT	- MNT
EBITDA	8,035.71 MNT	2,410.71 MNT	9,642.86 MNT	14,946.43 MNT	2,410.71 MNT	14,946.43 MNT
Serviço Dívida	- MNT	2,300.00 MNT	2,300.00 MNT	2,300.00 MNT	- MNT	- MNT
Cash-Flow depois de S D	8,035.71 MNT	110.71 MNT	7,342.86 MNT	12,646.43 MNT	2,410.71 MNT	14,946.43 MNT
Var CF		-99%	-9%	57%	-70%	86%
DSCR		1.0 x	4.2	6.5 x		
Headroom		111 MNT	7,343 MNT	12,646 MNT		
% of CF		5%	76%	85%		

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# **Social Venture MOVE – Microcredit**

## **Teacher's Notes**

## SUMMARY

This study has the purpose of presenting the path of a social microcredit start-up in Mozambique. Its members had just gotten out of college and decided to put in practice what they had learnt.

Even though the whole foundation of the project was developed in Mozambique, the team has extended its experience to other countries: São Tomé and Timor. However, the focus of this study will be solely in the Ilha de Mozambique's project and the difficulties that it is facing right now, in order to try to find answers that would allow the project entrepreneurs to overcome what is keeping them from having a more successful return rate.

The main issue of the project and the worse and unexpected default rate is within the fishing sector. This is peculiar, since the mission is in an island where there are plenty of fish and shellfish. By addressing this problem, and presenting the whole structure of the venture, it is its goal to understand better ways to deal with the difficulties.

Its format will be as a case study and it will present as well the macroeconomics of Mozambique to justify the choice of the place, align with the team itself, and why it is possible to have a successful project with as many contacts and sponsors as this one does.

## TEACHING OBJECTIVES

- To illustrate theoretical concepts applied to actual situations.
- To clarify that even when following the guidelines, in practice it does not always go well.
- To contribute to the diffusion of how microcredit may improve the developing countries' economy.
- To have various solutions of how to handle the situations related to the fishermen.
- What is the difference and in which situations is it better to use group or individual lending.
- To understand the different angles of how peer-pressure can work, and how it could difficult the work of the loan officers if wrongly handled.
- To improve the visibility and achievement of MOVE and the notion that ideas and creativity are what is needed to create a Social Venture.

## SUITABILITY FOR USE IN WHAT TYPES OF TRAINING PROGRAMS OR COURSES

This case study is more suitable to be used in a microfinance course, even though it could also be used in the course of social entrepreneurship (not as suitable, though). Its subject is vast enough to be given to any type of training related to microcredit, as long as it is not a very specific one, since this level is more of an introduction to microcredit. Its perspective is intentioned to be more of a general level. As so, it could be use in any MBA course or at any Masters course, for instance, on condition of fulfilling the requirements mention above.

The target who would benefit the most in having a discussion about this case study would be people who usually are not very familiar with microcredit, at least in practical basis. Field of study, age, or years of experience are not that relevant in this case, even though it would be easier to understand to people who have already worked in developing countries (with poor people would be a plus as well).

## SOURCES AND METHODS OF COLLECTING CASE MATERIAL

The main sources for this case to be written were obtained via MOVE structure, such as through the CEO, during an interview. The interview took about 2 hours, where the whole story was told and several details were mentioned. António Nunes clarified many minor issues that would be interesting and important for the reasoning line to build MOVE's business plan. An interview to Rita Ribeiro da Silva was also important to cross information.

Furthermore, many documents, such as a proposal made by MOVE to have a partnership with UNESCO (2011), which guidelines are yet confidential, therefore, cannot be specified. This document's purpose in this case was related to data within the entrepreneurs and the existed default rates, which enabled to understand exactly how the operations were going. To have even more data, many conversations took place with the loan officers who were in Mozambique at the time, so they could tell their experience and explain why certain behaviours took place, either theirs or the entrepreneurs' themselves.

It was useful to research on the Grameen Bank as well. For that, reading and searching on the following, was indispensable:

- Grameen Bank Website
- Schreiner, M. (2003). A Cost-Effectiveness Analysis of the Grameen Bank of Bangladesh
- Yunus, M. (1999). The banker to the poor. Uk: Aurum Press

There was also observation in the field for 6 months, in Mozambique. The author met the entrepreneurs and the officers of the Bank responsible for these processes, and was able to understand the culture of the country, and the particular ones mentioned in the case. This is extremely important because this facilitates the accuracy of the information, as well as the interpretation of the given data.

On the other hand, there were used documents as a source to acknowledge the macro-economics of Mozambique, such as:

- Chambal, H. (2010). Energy Security in Mozambique
- Mozambican's Government Website
- [www.cia.gov/library/publications/the-world-factbook/geos/mz.html](http://www.cia.gov/library/publications/the-world-factbook/geos/mz.html)
- [http://focusafrica.gov.in/Sector\\_Profile\\_Mozambique.html](http://focusafrica.gov.in/Sector_Profile_Mozambique.html)
- The economist intelligence report, 2011

At least, to have a better knowledge of microfinance itself, some documents were crucial:

- Lfourcade, A., & Iern, J, & Mwangi, P. (2005). Matthew Brown Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa
- Microfinance Information Exchange (MIX) and Consultative Group to Assist the Poor (CGAP) (2010). Sub-Saharan Africa 2009 - MICROFINANCE ANALYSIS AND BENCHMARKING REPORT
- Vletter, F. (2006). MICROFINANCE IN MOZAMBIQUE Achievements, Prospects & Challenges

## IN-CLASS DISCUSSION

First of all, it would be interesting to put the students in the loan office shoes in the first place. As so, how should this be done?

Before mentioning any of the topics below the students should read the case and prepare it for the following class.

- The Roots of Microfinance – Informal Finance in Developing Countries and the Roots of Small Scale Finance in Industrialized Countries
- Microfinance Credit Technologies – Group Lending versus Individual Credit
- Savings Mobilisation and other Financial Products (Microinsurance and Remittances)<sup>21</sup>

When in the class, students and professor should discuss it according to the questions of the case. At 30 minutes to finish the class, the professor should propose a challenge of becoming loan officers for the rest of the class. As so, the following video should be shown (the students were being called to be part of the team): [http://www.youtube.com/watch?feature=player\\_embedded&v=z8qo51AW-T4](http://www.youtube.com/watch?feature=player_embedded&v=z8qo51AW-T4) and in groups of 5 the students should come to an agreement of what should they have different with the fishermen.

In the end of the session, the professor would resume what ended up happening with the actual team in the field.

### QUESTIONS TO PREPARE STUDENTS FOR IN-CLASS DISCUSSION

The questions that the students should have prepared at home are the following:

- Why were the fishermen such a difficult sector, if they are among the ones who contribute the most to Mozambique's GDP?
- Should the team give the money directly to the entrepreneurs instead of going shopping with them?
- How does peer-pressure work in a negative way? Could this happen in the case of the fishermen?
- What is the main difference between the reasons of a MFI to operate with microcredit and a regular institution (Bank) to operate with similar products, to similar activities?

To the first question – Why were the fishermen such a difficult sector, if they are among the ones who contribute the most to Mozambique's GDP? – , students should approach the following topics:

- As a loan officer it is important that the culture of the people as well as the knowledge of the business are well understood, to make sure that all the angles and unexpected situations are covered.
- Fishing is seasonal and therefore there are periods when there might be difficult to have enough money to cover expenses plus savings.
- There might be periods when fishermen do not have enough money to cover their expenses.
- They are not organized in order to have reasonable margins with their sales, which mean that the distributors get most of the profit.
- Because the fishermen have seasons without paying and nothings effectively happens, they understand that it is ok not to pay (the only thing that happens is pressure from loan officers).
- Once they start not paying for more than 4 weeks, they start getting frustrated and it has happen that they try to run, because they cannot face the loan officer anymore without having money to repay.

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<sup>21</sup> Topics taken from Microfinance Syllabus of the LisbonMBA course 2011



- The fishermen ask for loans because they need to buy nets and fishermen ropes, many times they do not have them since they were ruined previously. This means that it could happen again, and when (if) they do, the fishermen will not have others to substitute and will not be able to fish again.
- The loan officers stay in the Island only for 6 months and after some editions the fishermen were paying to a person, not to the person who they borrowed money from. This disables to build a relationship based on trust (as microfinance is based upon), and they start to try to fool the new loan officers who always take some time to adapt to the culture and the people.
- Since there was a difference between the ones who were closer to each other: Abudo, Adamo and Chale and the other three, it could be either from feeling more responsible because the money was lent instead of going shopping with them, or it could be because they have helped each other as if they were a group.
- Following these ideas, it is possible to understand that this could happen to any sector that was seasonally, unless it was previously explained to the entrepreneurs. As so, in cases such as this one, the best thing would probably to have a payment plan that would include this kind of setbacks.

The second question – Should the team give the money directly to the entrepreneurs instead of going shopping with them? – should have the following topics pointed out:

- To go shopping with the entrepreneurs is less risky to Move, but it also conveys less responsibility to the entrepreneurs.
- Responsibility is directly linked to duties.
- Psychologically, the more responsibility it is given to an individual, the more he/she will try to respond positively, fulfilling his/her obligations, which could be one of the reasons why Abudo, Adamo and Chale were better payers.
- In fact, responsibility is also connected to trust and to make sure the relationship that gave the person responsibility will not be let down. As so, trust is used in a way that it is considered an effective instrument bridging (or tries to) the issues related to imperfect information when it comes to financial services.
- This leads to an important characteristic of microfinance (and therefore microcredit): the vital relationship built between the loan officer and the entrepreneurs. It is extremely important that both parties are confident of each other and that they both feel like not letting the other one down. And this might mean that it is imperative to take time to know the players.
- As so, in this case, either the loan officer would trust the people and would give them the money (which ended up happening with 3 of the fishermen), waiting for the receipts and monitoring their shopping and the whole business; or he/she would have a great probability of the entrepreneurs to spend the money in something else (due to Mozambique's culture and conditions, the majority of people need to be educated to work and to plan their lives) which would be a problem since Move is working through the sponsorship of Millennium bim.
- On the other hand, it is important to explore the disparity that would be to treat the entrepreneurs differently, because the ones who would have to be accompanied would feel even more diminished, and this could result in a worse default rate due to disclaiming of duties.

The third question – How does peer-pressure work in a negative way? Could this happen in the case of the fishermen? – should focus on:

- Peer-pressure works within smaller communities where people know, respect and trust each other.
- Because of the fact that peer pressure uses morale and other linkages between the players to enforce an action, it relies on what people think of each other. This could damage the relationships within communities or loan officer and borrower and ruin a small community as well.
- This does not mean that peer pressure does not work, because if a person does not pay, this is one of the best methods to enforce it. Nevertheless, it is important to understand the reason why the entrepreneurs are not paying since different reasons require different actions.
- If a person does not pay because he/she feels that they can get along with that without punishment, then they should have a social repression.
- On the other hand, if they do not pay because they are not able to (or they pay less than they should), they should be aware that it is not ok, but it is understandable and therefore, together, loan officer and borrower should work a way to create a new way of payments.
- What could happen (and did happen at some point with the fishermen)? They could not pay as much as they should, and started entering in default. If they are pointed by their peers (and loan officer) all the time, they will feel ashamed and will try to escape, because there is nothing that they can do in short-term. It is very important to manage expectations for all the players, and build trust to cement the relationship.
- Another hypothesis related to (negative) peer-pressure is when some fishermen are paying and some are not. After many weeks of hard effort to bring to the loan officer as much as they can, they understand that nothing happens to the ones who are not paying and start doing the same. This means that even if they have almost the entire value of the instalment, and are having a harder life due to that, and do not see the debt reducing that much (due to interest), they follow the bad example, and once that happens, it is very hard to turn the situation around.

The last question to be thought at home is - What is the main difference between the reasons of a MFI to operate with microcredit and a regular institution (Bank) to operate with similar products, to similar activities? – this is a smaller and not so important question, since it is not related to the case itself (but very interesting from an economic perspective). The answers should focus on:

- Think about a Bank as a credit institution which objective is purely commercial. This means to have such a return that its profits are the best possible. Think of a MFI as a way to help socially the society and create welfare in specific regions through credit lending.
- There are several reasons for a Bank to downscale and start working with microfinance:
  - Lower amounts but when in mass, they create significant value;
  - This brings goodwill (and great buzz) to the Bank;
  - They manage to have high interest rates, since they are risk averse;
  - Create a bigger portfolio of products and of clients.
- On the other hand, MFI motivation is more related with worries about the impact they have on the people and society (even though it is also important to have enough for the business to run). As so, their reasons to help the people is to make sure that it brings:
  - Women Empowerment;

- Access to education;
- Better nutrition ;
- Health opportunities.

Because both products – microcredit and regular credit – have different situations to be used at and different targets (which implies different returns), MFIs are starting to upscale while Bank start to downscale. Nonetheless, within a Bank, the balance of microcredit is much smaller yet versus its regular portfolio of credit. Two of the main reasons are the payment rates (which are riskier inside a group of poorer people) and the amount spent per operation that is much higher when it comes to microloans, due to all the monitoring and bureaucratization needed.

### QUESTIONS THE PROFESSOR CAN USE TO OPEN THE DISCUSSION

When discussing the case in groups, the students should think about the following questions:

- What should the loan officers have been done differently in the first place?
- How do you design an incentive scheme thinking about maximizing utility for both the debtor and creditor in this interaction process?

While doing this exercise, the students have to cover certain aspects, such as:

- Collateral – since the entrepreneurs do not have any valuable item, Move should be able to take away from them something that does not have explicit value, but it is valuable to them, such as what they have managed to buy with the money lent (in the case of fishermen, this should include boats as well).
- The payments' plan should be done in a way that would consider fishing as a seasonal activity, enabling the entrepreneur to pay more than the amount of the fixed instalment in the periods where there are surpluses and pay less when there are deficit (having the average to be the total amount per instalment).
- On the other hand, it could also be possible to have a variable instalment (instead of fixed) according to the fishing conditions (even though this could work very well, this would be harder to operationalize, unless the loan officer could really understand the pillars of the business, so he/she was not fooled by the entrepreneurs).
- MOVE should also have used group lending because the Island of Mozambique is such a small island that there is possible to use peer-pressure as a way to enforce payments. As seen previously, this would have to work as a positive enforcement, instead of a negative one.
- It should be understood that the entrepreneurs at the Island of Mozambique value local power very much, as so, at the first default, that power should be called to work along with the team. Signing forms in front of that powerful person help as well, since the entrepreneurs feel like they will be chase by the community leader.
- Understand the flaws with the fishermen business plans: both nets and fishermen rope are perishable, which could be ruined before the loan is paid, and would disabled them to continue fishing.
- Since relationships (based on trust) are among the most important basis of microcredit, the person who lends the money shall accompanied his/hers entrepreneurs until the end of the borrowing, to make sure they feel that the person who is charging the money is the same one as the one who lent. Physiologically, this has a very powerful effect.

- In case the last point is not possible, Move has to make sure that the entrepreneurs are never alone (without any element of the team in the Island).
- Always have presented (and make sure that the entrepreneurs understand) that nothing that they have bought is theirs until everything is paid off.

The last question – How do you design an incentive scheme thinking about maximizing utility for both the debtor and creditor in this interaction process? – is more focus on microcredit generally and should be proposed to the students as a way to come up with different points of view for both sides of the players:

From the side of the loan officer:

- a) The utility depends **directly** on the following factors: to receive the entire borrowed money back plus the interest. There should exist an equilibrium between such high interests that the activity is not profitable and not charge interest driving the borrower to feel no incentives to pay. It is important to understand that this is crucial to have the borrower balanced. In fact, if the borrower loses respect for the credit, this might mean that he/she ends up not even paying the borrowed capital.  
In this sector, the student has to explore if interest is an incentive instrument that the loan officer should use to be paid back. It is important to understand that microcredit requires a lot of labour force due to its field operations, therefore interest is an issue in order to the collaborators to be paid. On the other hand, interest is also a way for the loan officer to make sure that if another borrower does not pay, that the loans cross-subsidized each other.
- b) **Indirectly**, the loan officer should be aware of the welfare of the region where he/she is acting along with the promotion of the local economy and Social Responsible Investment (SRI)

The student should not forget that there are several institutions with different purposes that work with microfinance, such as Microfinance Institutions (MFI), Non-governmental Organizations (NGO) and Banks. This last mentioned one has a very specific business goal: to increase profit. As so, the usage of interest (and its level) is directly adjusted to the gains and costs they might have due to lending money: how risky the person is, how much money it is going to be lent, how is the inflation rate in that country, how much publicity the Bank is going to gain (brand awareness), and how does it fit in the culture of the Bank. The difference between Compartamos (one of the largest MFI in Latin America – default rate of less than 2% with an annual interest rate of 105%<sup>22</sup>) and Grameen Bank (the first MFI in the world – default rate of about 3% and annual flat rate of 10%<sup>23</sup>). Having stated this, the students should think about the importance of interest rates, and that there are incentives such as collateral and a closer relationship that could be in the bottom of a better payment rate.

From the side of the borrower:

- a) **Directly**: they have enough money to finance their idea, starting to have their own business. If they pay on regular basis and he/she entire instalment that will allowed him/her to ask for second loans. Overall, the person will be able to subsist with a better level of living and that, in the long term, will allow his/her children to go to school, feed them better and have a better house.
- b) **Indirectly**: the borrower will gain personal competences and will be more respected among the crowd, since he/she managed to get a loan, and to pay it back. Also it will allow him/her to learn economic concepts that will be useful for his/her business and life.

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<sup>22</sup> Waterfield, C. (2008 May). Explanation of Compartamos Interest Rates, Version 2

<sup>23</sup> Grameen Bank Website

### **How should this equilibrium be made?**

- 1) To phase the project (it should be thought to have different steps)
- 2) Give education before giving the loan
- 3) The money could be given all at once, or it could be given step by step, but it is important to make sure that the borrower feels a penalty if he/she does not pay according to plan. It could include punishment in the interest rate or even loss of financing.

As mentioned previously, the bank/NGO or MFI should be flexible, but should have such incentives that the borrowers will not fail in paying. If there is a high default rate, they do not gain not only because they lost the capital itself, but also because they will start to have a negative image. It must be clear that this is a business not a donation. Both to the borrowers as to the loan officers.

At the moment Move was not managing this relationship very well with the entrepreneurs, nevertheless, these thoughts aligned with the thoughts of the previous answer could (and probably would) build a very good solution to the existing problem.

### **WRAP-UP – WHAT HAPPENED NEXT**

*With all the situations described, what did the second edition of loan officers start doing to bridge the problems?*

They contacted one of the most powerful person in the Island “Sumalgy – the councilman of the economic activities” to help them finding the people who were not paying. With them, altogether, there was a meeting where the entrepreneurs signed a form compromising to pay (a new understandable of their payments over revenues ratio was made, so it was possible to assign a more reasonable amount per week). The fishermen started to pay more than they were, yet they have not managed to pay it all so far.

On the other hand, with the previous experience, Move started to lend money in groups (group lending), in order to create greater peer pressure and to make sure they were helping each other. This has been going very well so far, and the team has already assisted of discussions where certain elements of the group explain why the others have to pay, and exploring reasons of how to handle payments that are harder to do in certain periods.

Move decided not to leave the entrepreneurs alone in the Island without any loan officer from Move, so they would always feel accompanied. Furthermore, the loan officers from the previous editions would introduce the entrepreneurs to the new team, and they would altogether walk around the Island, so everyone knew them and understood that the team knew each other (it was harder to try to fool the new team if they comprehended that within Move elements they knew each others).

At least, Move determined to include classes about life planning in the course given both for the entrepreneurs as well as the random people in the Island, in order for them to understand the reasoning behind the whole structure of the lending and what kind of decisions were important not only for the entrepreneur, but also to everyone who would depend on him/her (family and close friends).

### **BIBLIOGRAPHY**

There is several literature interesting to be read by the professor, which could also be distributed to the student.

It is important that the professor understands how Mozambique is organized and the differences within the many districts, in order to comprehend how microcredit can be effective and the cultural reasons for why it could not work as well. There is not one document that aggregates all this information, but it would be interesting to read the following ones:

- Lapper, R. (2010 June, 22). Special Report on Mozambique, Financial Times
- Matavele, J. & Camundino, V. Mozambique Report, National Institute for Education Development

It would also be interesting to read the report on Mozambique's market overview written by BPI. Nevertheless, it is in Portuguese:

- Carvalho, P. & Sousa, J. (2009). Estudos Económicos e Financeiros, BPI

On the other hand, it is important to recognize which MFIs are already in Mozambique and their path until now. For that, the following studies would be useful:

- Microfinance Information Exchange (MIX) and Consultative Group to Assist the Poor (CGAP) (2010). Sub-Saharan Africa 2009 - MICROFINANCE ANALYSIS AND BENCHMARKING REPORT
- Vletter, F. (2006). A report of the Mozambique Microfinance Facility

Relating to microcredit and microfinance, it would be interesting to read "the banker to the poor", from Muhammad Yunus, 1999. In this book it is possible to understand how everything started and what was behind Yunus idea. It also explains the methods and the reasoning that the father of Grameen bank made when created the idea of microcredit (and later microfinance). This book is more of a story than a paper.

There are also some papers and websites related to microfinance that are important to understand the concepts, and that could be given to the students:

- Adams, D. (1992). Taking a fresh look at informal finance in Informal Finance in low income countries, ed. Dale Adams and D Fitchett, Oxford: Westview Press
- Danel, C. (2011 September). Why Microfinance is a different kind of finance, Business.In – Forbes India
- Guiné, X. & Karlan, D. (2006). Group versus Individual Liability, A Field Experiment in the Philippines
- Sriram, M. (2005 December). Information Asymmetry and Trust: A Framework for Studying Microfinance in India, Volume 30
- Waterfield, C. (2008 May). Explanation of Compartamos Interest Rates, Version 2
- Website of Grameen Bank

Since MOVE is a platform and not a Microfinance institution, circumstances are very important to link the social venture to microcredit and Mozambique. As so, there is not a document that explains exactly how a start-up like MOVE works, nor there is a document saying in which structure it can be put in. Therefore, it is important that the above mentioned circumstances are acknowledged in order to target the different angles of this case study.

### CONCLUSION

This study has shown that even though theory is a very important starting point, there is not a infallible way of deploying microcredit lending by simply applying theoretical principles and approaches. The circumstances need to be carefully approached, namely field work. What works in cultures and economies such as, for example, India or Mexico, might prove ineffective in Mozambique, São Tomé or East Timor. This measure of cultural carefulness or, academically seeking, cultural relativism, should be the baseline for any project of this nature.

Furthermore, it is also possible to conclude that it is better to take more time with due-diligences than to rush into the lending. In fact, when problematic situations are found and dealt with, and especially in the absence of enforcement policies or collateral efforts (which is the case of MOVE), it is very hard to overcome the default rate, since there is not a way to impose it. This is not only bad for that specific case itself, but it jeopardizes the whole system, because microfinance is mostly based in examples from the peers or the MFIs and lends much of its success to a bond of contextual trust that is built over time.

Any project should be sought for medium or long-time basis and never on a short time-window, due to the harmful consequences it would bring. In such underdevelopment economies, word-of-mouth and cultural patterns are extremely important and once something wrong happens, it is very hard to turn those situations around.