

# **Alchemy Field Report on FCC Micro Credit Programs to Refugees in Mozambique**

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This paper is a report by an Alchemy intern at Fundo de Credito Comunitario (FCC) in Mozambique for the summer of 2004. The report consists of five sections. The first section briefly outlines the current environment surrounding refugees in Mozambique and the refugee policy of Mozambican government. The next section explains micro credit lending program of FCC in Mozambique, with emphasis on its Refugee Integration Program (RIP), as well as FCC's lending stance in its program. In the third section, the paper evaluates the impact of FCC's micro credit lending program in Maputo based on the latest results of Alchemy interviews with FCC RIP clients and non-clients. Then, it presents recommendation and proposals for FCC and concludes with prospective direction of FCC.

## **Section 1: Introduction**

This section briefly outlines the current refugee situation in Mozambique and explains the Mozambican government policy towards refugees including the background story of transferring the camp from Maputo to Nampula.

### **1. A) General information related to Refugee in Mozambique**

#### **1. A. i) Numbers**

In 1983, Mozambique has ratified the 1951 Refugee Convention. Then the Mozambican government has subsequently ratified the additional 1967 Protocol and the 1969 OAU Convention in 1989.<sup>1</sup> Because Instituto Nacional de Apoio aos Refugiados (INAR, National Institute for Refugees) does not keep the updated number of refugees outside the camp and there is no track record of those who left the camp, there is no official government number of refugees living in Mozambique. According to surmise of government officials and UNHCR, however, it is estimated that roughly 8,000 refugees are living in Mozambique, which is much smaller than those of other African countries.<sup>2</sup>

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<sup>1</sup> The Practical Guide to Humanitarian Law (2002), Rowman & Littlefield Publishers, INC

<sup>2</sup> For instance, according to UNHCR Statistical Yearbook 2002, Tanzania has 689,548 refugees, Zambia has 247,710 refugees, and Kenya has 236,089 refugees at the end of year 2002

According to the latest information of INAR,<sup>3</sup> of some 8,000 refugees in Mozambique, there are more or less 5,000 refugees in the Maratane refugee camp (Table). Although these refugees come from 18 countries, more than 90% are from Democratic Republic of Congo (DRC), Burundi and Rwanda. In addition, it is estimated that there are about 3,000 refugees living outside the camp. Of these urban refugees population, approximately 1,500 “self-sufficient” refugees settled in Maputo, some 100 refugees in Nampula<sup>4</sup> and about 80 refugees in Lichinga.<sup>5</sup>

**Table: Summary of Refugee Population in Maratane camp as of May 2004**  
[Source: INAR and UNHCR]

N/o	Country of Origin	Number of Asylum Seekers	Male	Female
1	Democratic Republic of Congo	3,601	2,069	1,532
2	Burundi	746	442	304
3	Rwanda	471	262	209
4	Somalia	138	119	19
5	Ethiopia	15	15	0
6	Sudan	12	10	2
7	Uganda	12	10	2
8	Brazzaville, Congo	8	6	2
9	Angola	7	4	3
10	Sierra Leone	3	2	1
11	Liberia	2	2	0
12	Kenya	1	1	0
13	Chad	1	1	0
14	Republic of Central Africa	1	1	0
15	Ivory Coast	1	1	0
16	Zimbabwe	4	4	0
17	Palestine	1	1	0
18	Eritrea	1	1	0
	<b>Total</b>	<b>5,025</b>	<b>2,951</b>	<b>2,074</b>

Because of its relatively soft stance towards refugees compared to other neighboring countries, Mozambique is known as one of the more generous host countries. Currently, there is an inflow of about 100 to 120 new refugees or asylum seekers into Mozambique per month. The Mozambican government currently sets up three entry points for asylum seekers in the northern areas of Lichinga, Tete and Cabo Delgado. At these three entry points, refugees are registered and transferred to Maratane camp within a few days. But

<sup>3</sup> The number was given by Rosa Chissaque, the National Director of INAR.

<sup>4</sup> The number was estimated by Aderito Matangala, the Camp Administrator of Ministry of Foreign Affairs and Cooperation in Nampula.

<sup>5</sup> The rest of about 1,300 refugees are considered to scattered throughout Mozambique.

for most of refugees in Mozambique, Mozambique is rarely the first place they could apply for asylum. Because the more than 80% of refugees are originally from DRC, Burundi and Rwanda, the majority of them have passed through Tanzania or Malawi before they arrive in Mozambique.

### **1. A. ii) Transfer of refugee camp**

In 2002, the government of Mozambique decided to transfer the refugees from Bobole Centre in Maputo to Maratane Centre in Nampula. This transfer began in December 2002 and ended in March 2003. Some reasons for this transfer were<sup>6</sup>:

1) Security

The government was concerned that refugees were involved in illegal activities, including crossing the border to South Africa. It is likely, but not acknowledged by the government, that South Africa pressured the government to move the refugees to reduce their proximity to the South African border. Maputo is an hour's drive from the border, but Nampula is more than 1,200 km north of Maputo.

2) Capacity of the camp

The camp in Bobole Centre was too small to accommodate the growing inflow of refugees. In 1999, the inflow of refugees from the Great Lakes area to Mozambique began to increase and reached some 2,000 at the end of the year. However, the Bobole refugee camp had capacity for only some 500 refugees therefore removal of the camp was urgent.

3) Closeness to the Great Lakes region

Compared to Maputo which is located in south of Mozambique, Nampula is closer to DRC and Burundi, and there was already a camp at Maratane, which could be expanded

With the transfer of the camp from Maputo to Nampula, no refugees are legally permitted to stay in the capital, and all international refugee assistance including food rations and other services (eg. regular access to water, receiving material for construction of own housing, access to school and health service, etc.) have become available to refugees only in Maratane. This meant that the 1,500 or so refugees who chose to stay in Maputo were no longer supported by UNHCR and could no longer receive material assistance although they were still under the protection of UNHCR.

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<sup>6</sup> The paper handout given by Rosa Chissaque, the National Director of INAR

## **1. B) Mozambican Policy towards Refugees**

### **1. B. i) Legal Status of refugees**

For asylum seekers and refugees in Mozambique, there are two types of official identification: for asylum seekers, there is a permission called the '*declaraco*' or 'Declaration', and once an asylum seeker has undergone refugee status determination; she receives the 'DIRE' (Permission of Residence, *Documento De Identificasao De Resideneda Para Estrrangeiros*). Declaration is issued by the Ministry of Foreign Affairs of Mozambique for all of those recognized as asylum seekers in Mozambique. After staying two months in the camp, this document is obtained by almost all of asylum seekers. As opposed to relatively easily obtained Declaration, DIRE is hard to obtain as it requires the asylum seeker to undergo the full process of status determination. This document is issued by the Ministry of Home Affairs after a thorough process of individual examination by the Ministry of Interior and Migration, NAR and UNHCR. According to UNCHR, refugees are legal residents once they received official refugee status. However, the process of attaining refugee status usually takes a long time, often between 7 to 10 years. Since the Mozambican government does not apply a prima facie status determination process for refugees, all applications are decided according to individual circumstances.

### **1. B. ii) Implementing government refugee policy**

In fact, most asylum seekers do not seem to bother without obtaining official refugee status (DIRE) because as asylum seekers they are able to do all the things official refugees can do: move around freely, work, send children to school, rent land, receive basic medical service and so on<sup>7</sup>. In Maputo, there are many refugees who have succeeded in developing their own business though they have not obtained DIRE yet. Therefore, obtaining legal status does not seem like a huge obstacle for refugees' livelihood. However, as discussed below, not having the DIRE means refugees are not able to open bank accounts and have no access to the non-refugee focused MFIs in Maputo.

Difficulty obtaining legal status does not seem to discourage the inflow of refugees into Mozambique. Although Mozambique does not have borders with major refugee producing countries, as already mentioned, there is still an inflow of about 100 to 120 new refugees or asylum seekers into it per month.

The relatively generous refugee policy of Mozambique is conspicuous when it is compared to other receiving countries in the region, such as Tanzania and Malawi. These countries apply very strict policy towards refugees and their camps are often likened to 'jail'.<sup>8</sup> In these countries, refugees have extremely limited movement and very little

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<sup>7</sup> On this paper, for convenience, the term 'refugee' contain both asylum seekers which consist the majority of Mozambique 'refugee' population as well as refugees with DIRE.

<sup>8</sup> Rosa Chissaque, the National Director of INAR

opportunities for being self-sufficient. This could be a reason why a number of refugees move from Tanzania to Mozambique.

According to the Program Officer of UNHCR, one of major reasons that the Mozambican government has a generous refugee policy is that it has benefited from the resources of refugees. Along with the government's accommodating stance towards refugees, warm treatment by local Mozambicans also contributes to its good reputation. During the 16 years civil war in Mozambique, many Mozambicans themselves were displaced, both internally and across the borders, and this experience as refugees inclines them to have more sympathy and understanding towards refugees who flee to Mozambique. These factors make it less likely that the Mozambican government would change its relatively accommodating stance towards refugees.<sup>9</sup> For refugees, in addition to Mozambican policy, another reason for going to Mozambique is the border with South Africa. South Africa in the African continent is often compared to the United States in the Americas, and many refugees hope to reach to South Africa through Mozambique.

## **Section 2: FCC work in Mozambique**

### **2. A) the Micro Credit Lending Climate and FCC's Lending Stance**

FCC's micro credit lending program was inherited from World Relief (WR) in 2002. The micro credit program was separated from WR mainly because of capacity reasons. As the number of clients and the volume of program increased, WR assigned FCC to concentrate on and manage this program. Since then, the micro credit program has been run by FCC independently although FCC is legally still part of WR.

However, there was also a strategic reason for separating micro credit lending from WR.<sup>10</sup> FCC was charged with making its lending stance more of commercial than "pro-poor". In the field of micro credit, there are two main streams of thought regarding stance and direction of lending; the "pro-poor" stance and the "commercialization" stance<sup>11</sup>. There has been a big debate between these two different thoughts. The "pro-poor" stance, favored by those who come from humanitarian NGO backgrounds, focuses on providing micro credit to the poorest of the poor. This type of micro-credit institutions is directed to put importance on client quantity rather than client quality, and the goal of the lending program is to increase the social impact through providing financial opportunities. This lending stance requires the micro credit institution to obtain continuous external funding in order to sustain its lending program.

On the other hand, a commercial orientation drives the micro credit institution towards self-sufficiency through reducing dependency on outside funding sources. Obviously, this lending style shifts a micro credit institution to be more market-oriented and leads an

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<sup>9</sup> Aderito Matangala, the Camp Administrator of Ministry of Foreign Affairs and Cooperation

<sup>10</sup> The Managing Director of FCC, Travis Wilson

<sup>11</sup> 2003 Summer Alchemy Field Report by Jeff Isen and Liv Halperin

institution to have fewer of the poorest of the poor clients and more of those who are likely to repay their loans. This stance is taken by those who come from more business-oriented areas and also investors who consider micro credit industry as successful business field.

Factors that orient micro credit institutions towards “commercialization” include a definite shift from generous donors to sophisticated investors who view micro credit industry as profitable investment field. Currently, donor funds flow into categories of humanitarian assistance such as HIV, rather than towards supporting the livelihoods of refugees. This shift means that practically-speaking there are fewer humanitarian dollars for micro credit programs for refugees. This climate change in funding opportunities has directed micro credit institutions towards the commercial, market-oriented stance, and pressed micro credit institutions to satisfy market demands for more profitability.

According to FCC’s Managing Director, this climate change has also affected FCC, and it has sought a new direction-- to obtain more financial sustainability through being more profit-oriented.<sup>12</sup> Especially after the incident of 9.11, WR has had difficulty in raising sufficient funding, and FCC has received less financial assistance from WR. Depending on outside fund sources often limits flexibility because as long as FCC relies on external funding, there is the possibility that the institution will be affected by the change in fundraiser’s political stance. Therefore, in order to provide consistent support for the poor, the institution needs to be financially self-sufficient and independent. To achieve the goal of supporting poorest people, FCC has been trying to make itself profitable.

## **2. B) FCC’s micro credit programs**

According to FCC’s Activity Report, as of July 31, 2004, FCC has some 8,700 clients with a total loan amount of US\$711,376 and a repayment rate of 91%. FCC has three loan programs for poor Mozambicans and a specialized program for refugees, the Refugee Integration Program (RIP).

FCC’s micro credit programs for poor Mozambicans consist of following three types of group lending.

### **1) Community Bank Loan**

Targets the poorest class. As of July 2004, 6,242 clients with outstanding loan of US \$290,018 and 91% repayment rate. Clients organize a group of 10-30 people by themselves. Group guarantee. The amount varies from US\$50 to 350.<sup>13</sup> 4 months loan cycle with 5% flat interest rate per month. Bi-weekly repayment.

### **2) Growth Loan (Special Bank Loan)**

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<sup>12</sup> The Managing Director of FCC, Travis Wilson

<sup>13</sup> Exchanged at 1US\$=25,000MZM

Targets those who finished at least two cycle of Community Bank Loan without delay. As of July 2004, 1,235 clients with outstanding loan of US\$233,996 and 92% repayment rate. Clients organize a group of 5-10 people by themselves. Group guarantee. The amount varies from US\$160 to 400. 4 months loan cycle with 5% flat interest rate per month. Monthly repayment. Saving which corresponds to 30% of face amount of loan required.

### 3) Solidarity Group Loan

Targets those who are in the process of developing stage. As of July 2004, 271 clients with outstanding loan of US\$90,455 and 92% repayment rate. Clients organize a group of 4-6 people by themselves. Individual guarantee. The amount varies from US\$400 to 800. 4 months or 6 months loan cycle with 5% flat interest rate per month. Monthly repayment. Saving which corresponds to 125% of face amount of loan required.

The Refugee Integration Program (RIP) is specialized only for refugees and is funded by UNHCR and the Alchemy Project and currently operating only in Maputo.<sup>14</sup> As of June 2004,<sup>15</sup> the RIP in Maputo had 83 clients (24 women) with a total outstanding portfolio of US\$ 95,016 and a repayment of 84%, representing about more than 10% of FCC's total loan portfolio.

Unlike the Mozambican programs, the RIP allows individual lending for refugees and does not require initial savings for first time borrowers. The loan amount for one client varies from US\$ 400 up to US\$ 4,000. Refugees can choose either 4 months or 6 months for their repayment cycle with a 5% of flat interest rate per month for an initial loan amount, regardless of what has been already paid back by the client. In order to receive a loan, a refugee must have a functioning business for the source of repayment and must satisfy a collateral requirement of 125% of lending amount.

For each new client, the loan check normally takes 5-6 days. After the application is made, the FCC loan promoter examines the new client's business and guarantee and then decides whether the applicant is eligible for a loan. If so, his application is double-checked by the Loan Approval Committee consisting of loan officers and finally approved by the Managing Director. In terms of requirements for documents, FCC does not require refugee clients to have DIRE for loan application. This flexible requirement for documents has distinguished FCC from other MFIs which all require DIRE to apply for a loan, and has largely facilitated refugees to obtain lending opportunities in Mozambique.

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<sup>14</sup> There used to be RIP in Nampula however it stopped at the end of March 2004 due to many absconding by refugee clients.

<sup>15</sup> FCC Monthly Activity Report

## **Section 3: Evaluation**

From June-August 2004, the intern worked with FCC primarily in Maputo where there are some 1,500 remaining urban refugees. As described above, since the refugee camp in Maputo was transferred to Nampula, the Maputo refugees do not receive assistance from UNHCR. FCC's micro credit lending program for them seeks to enable them to become self-sufficient. This section evaluates and analyzes the success of FCC's micro credit lending program in Maputo.

### **3. A) Methodology**

In the summer of 2004, the intern conducted overall 17 interviews in Maputo: 15 with FCC clients and 2 non-clients. Reflecting the population of FCC's RIP clients, most of these 17 interviews were Burundians (12), as well as Rwandese (3) and Congolese (2). All of these interviewees had stable businesses so most of interviews took place in their shop. The businesses were mostly located in suburb areas of Maputo and, with the exception of a Congolese hairdresser, all were retail kiosk selling food and primary-necessity products.<sup>16</sup>

In addition to its primary research conducted in Maputo, the intern visited Nampula, where the refugee camp is located, and interviewed 5 clients<sup>17</sup> and 5 non-clients both in the city of Nampula and the refugee camp as well. Contrary to interviewees of Maputo, reflecting the dominant population of Congolese refugees in the Maratane camp, among these 10 interviews, 5 interviewees were Congolese refugees, and the rest consisted of Burundians (3), Rwandese (1) and Sudanese (1). As opposed to dominance of retail kiosk in Maputo, business types of urban refugees in the city of Nampula are relatively diversified such as hairdresser<sup>18</sup>, beauty shop grocery and retail kiosk. In the Maratane camp, needless to say, refugees' livelihood is more unstable and heavily dependent on monthly food assistance by UNCHR. Among 3 interviews with refugees living in the camp, two were jobless<sup>19</sup> and one was making a small amount of money by selling his crops.

### **3. B) Refugee Integration Program in Maputo**

FCC's Refugee Integration Program in Maputo has been known as the successful micro credit lending program with many self-sufficient refugee clients.

#### **3. B. i) Refugees in Maputo – the Host Environment**

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<sup>16</sup> According to interviews with refugee clients, these small businesses are relatively easier to start with due to low initial cost. Also, there are many successful precedents in the same business.

<sup>17</sup> Currently, the RIP has stopped in Nampula therefore I considered former clients as clients.

<sup>18</sup> Hairdresser is the most popular business among Congolese refugees. They selected this business because there are so many beauty shops around their shops that it would be easier to succeed.

<sup>19</sup> They are selling food provided by UNHCR in the camp.



### 1) Security

According to interviews with UNHCR and INAR, there are no reports of serious crimes or security problems targeting at refugees. Interviews with refugees in Maputo confirmed this relatively secure living condition. Of 17 interviews in Maputo, 7 experienced crimes or insecurity, but none showed serious concern about their security condition in Maputo.

### 2) Access to credit

Although there are several MFIs in Maputo, access to these loan programs largely depends on whether a refugee has obtained his official legal status DIRE from the Ministry of Home Affairs. As already mentioned in the previous section, without this document, refugees are not able to open bank accounts and have no access to these MFIs. Currently, FCC is the only MFI that has a specialized credit program for refugees and as the sole institution that provides credit to refugees with requiring only the Declaration but DIRE.

## **3. B. ii) FCC clients' livelihoods**

All of the 15 clients interviewed in Maputo have already established stable economic situation through their business. None of them showed much concern about their diets, saying they regularly eat fresh meat, chicken and fish and often drink alcohol or soda. The majority had basic infrastructure such as electricity, television and refrigerator in their homes.

Although most refugee clients modestly claimed they did not consider themselves richer than local people, the data strongly confirmed that their income level is much higher than the average of local Mozambicans. For instance, the average monthly income of a local Mozambican does not even reach to US\$20,<sup>20</sup> on the other hand, the approximate monthly income of interviewees in Maputo amounts to some US\$550.<sup>21</sup> All interviewees said that their business, supported by FCC's loan, is the primary and often the sole source of their stable income.

However, none of respondents had access to a bank account due to lack of legal status and documentation therefore they don't have a safe place to keep their money. FCC provides saving function for RIP clients,<sup>22</sup> and some of them use FCC's account as their saving account.

## **3. B. iii) Evaluation on clients' satisfaction**

From interviews with clients, it would seem that the RIP of FCC has matched their expectations very well. Although some beneficiaries said the interest rate of 5% flat per month was too high and the loan amount was too small to develop their business, the

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<sup>20</sup>The Foreign Ministry of Japan, available at <http://www.mofa.go.jp/mofaj/area/mozambique/data.html>

<sup>21</sup> Calculated based on Alchemy questionnaire.

<sup>22</sup> Clients can pay more than their scheduled payment. The surplus is saved in FCC's account as their personal saving.

majority of refugee beneficiaries responded that there were no major difficulties and challenges with FCC loan when asked about any complaints or requests towards FCC.

Most of beneficiaries pointed out the flexible documentation requirement<sup>23</sup> as a huge attraction of FCC and greatly appreciated it since the majority of them have not obtained the official refugee status yet. Some respondents actually asked other MFIs for applying loans but were rejected due to lack of official legal status. In addition to documentation, some respondent said FCC's flexible payment schedule<sup>24</sup> made it easier for them to repay the loan, and FCC's saving function with incentive system was another attraction for them because they don't have a bank account. Also one beneficiary valued the FCC for not requiring guarantors. Depending on applicants' financial background, other MFIs sometimes require local guarantors with sufficient financial assets; this is extremely difficult for refugees to find.

### **3. B. iv) Overall assessment of RIP in Maputo**

The success of the RIP in Maputo is based on two underlying factors: the relatively secure environment and the strong determination by refugees to achieve financial success. As the interviews show, most refugee clients in Maputo have been operating their own business without facing any major security concern, which is crucial for expanding their business. Moreover, refugees' steady determination is reflected in their clear blueprint for the future and their strong motivation to expand their businesses. Collaborating with these factors, FCC's RIP loan has served a crucial role in developing their business and eventually helped their integration to the local community.

## **Section 4: Recommendations/Proposals**

In spite of its successful programs, FCC is now facing the need for change and will be required to engage in organizational reform in order to attain its mission of helping the poor. Considering the situation surrounding FCC, the intern vigorously worked to enable FCC to cope with these challenges and finally came up with some proposal papers improvement in the following three areas in RIP are particularly important: increasing operational efficiency, motivating employees and enhancing their morality, and exploring a potential refugee market for further revenues.

### **4. A) Increasing operational efficiency (See Appendix A)**

As of July 31, there are 83 RIP clients for one loan promoter in Maputo. Given its limited human resources, it is crucial that FCC increases the efficiency and swiftness of routine work in following areas to improve its overall performance.

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<sup>23</sup> FCC accepts Declaration as the official legal document.

<sup>24</sup> Clients can choose either 4 or 6 months repayment schedule.

#### **4. A. i) Organize Clients' information**

Clients' files are piled up in disorder, and loan promoters and officers struggle to find clients' files. Clients' files should be classified in alphabetical order and each client file should contain all of the necessary client information such as application, original contract and payment receipt as well as repayment amount and schedule. Otherwise, loan officers need to look for different files for one client to collect even basic information.

#### **4. A. ii) Use electronic forms for information management (See Appendix B and C)**

For organizing clients' information, it is much more efficient to use electronic forms for setting up repayment schedule and calculating amount of repayment. Currently, the loan promoter makes repayment schedule with paper calendar and even calculates repayment amount for capital, interest and saving with a calculator for each client, very likely to cause mistakes in payment amount. Using electronic forms such as Excel spreadsheets embedded with automatic calculations will shorten the time for these procedures and reduce the number of mistakes.

#### **4. A. iii) Make a written manual**

Since the rotation of loan officers seems to be frequent, FCC should create a manual for the loan procedure, so that a newcomer can learn quickly. Also, FCC should consider classifying clients based on their repayment record and then give them rating. This rating would enable FCC to share knowledge about clients and to make it clear for loan promoters what need to be done for each client.

#### **4. B) Setting up goals for enhancing office morale (See Appendix D)**

Setting up clear goals for employees (e.g. loan promoters and officers) is an effective way to motivate them and increase their productivity. Creating target outcomes and incentives will encourage workers to increase their productivity and efficiency to accomplish their assignment. Employees can thereby improve their work performance and also explore their potential through this process.

#### **4. B. i) Set up goals for organization and individual**

FCC must address organizational goals for all the employees and, through consulting with their supervisors, each employee should set up his weekly, monthly, quarterly and yearly individual goals in accordance with organizational goals. This would increase productivity and efficiency of employees because they will try to manage their schedules to maximize their productivity and also stop procrastinating solving problems that reduce their efficiency.

#### **4. B. ii) Hold periodical meetings**

It is indispensable for FCC to have scheduled weekly, monthly, quarterly, yearly meeting between employees and directors. Directors need to convey organizational goals to employees through these meetings, and employees should address their progress and share their obstacles with directors at these meetings. Through this process, employees try to find bottlenecks in their work and to come up with ideas to clear them. On top of that, meeting fosters better communication between employees and directors.

#### **4. B. iii) Establish assessment system**

To fairly evaluate the performance of employees, a reasonable assessment system is necessary. Also, FCC should consider of introducing an incentive system to give credit to better performers in order to further motivate employees. This is likely to strengthen their responsibility and commitment in their work.

#### **4. C) Exploring a potential refugee client market for further revenues (See Appendix E)**

As FCC seeks financial stability, it is essential to explore new markets to increase its revenue. The most straightforward approach to increase the revenue of the Refugee Integration Program (RIP) is to expand the number of clients. This has to be done in two steps: first find new potential refugee clients and next sell them all the benefits of FCC loan program.

##### **4. C. i) Find new clients**

INAR uses community leaders to convey important information to about 1,500 refugees in Maputo. It is worth contacting them and advertising FCC program to explore new clients in Maputo. Most of them are probably self-sufficient but many may be looking for new lending opportunities to expand their business. Also, FCC should ask its clients to introduce new clients. For instance, the interviews with FCC clients confirmed that Burundi refugees have a network to support each other both in Maputo and Nampula.

##### **4. C. ii) Advertise FCC's strengths**

After finding potential clients, FCC must attract them to its program with its advantages. Interviews with FCC clients suggest the following are considered major strengths of FCC by refugees: 1) flexible requirement for documents, 2) established reputation in the refugee community, and 3) providing a savings facility.

Flexible documentation requirement is truly the most attractive feature of FCC RIP loan, and FCC needs to emphasize this. Also, since the majority of refugees are not eligible to

open their own bank account and do not have a safe place to keep their money, FCC can advertise its saving service for refugees as well as its 5% incentive system for saving.<sup>25</sup>

#### **4. D) Schedule for implementing these proposals (See Appendix F)**

Above-mentioned proposals and recommendations need to be implemented in certain order. In the first 1-3 months, as the short-term goals, FCC should focus on maximizing efficiency and also start permeating organizational goals among employees. Then, in the next 4-6 months, it is highly recommended that FCC begin to explore potential clients to pursue more revenues through not only focusing on urban refugees in Maputo but also considering the possibility of restarting a micro credit program in the camp. In the long run, FCC should introduce new incentive systems for employees and achieve organizational reforms in order to further strengthen FCC.

### **Section 5: Conclusion**

As results of interviews with clients show, FCC has established its reputable position in micro credit industry for refugees in Mozambique with its specialized program. Particularly, flexible requirement for documents and supportive lending stance for refugees have distinguished FCC from other competitors in Mozambique. In the short term, it is unlikely that FCC will lose its current status. However, in the long term, its advantages can be influenced by external factors in the surrounding environment. For instance, the latest information about the issue of new type of ID means FCC should not take its document flexibility advantage for granted.<sup>26</sup> If this new ID gives more stability to refugees' position in Mozambique, other MFIs might target refugees as their new clients.

Also, FCC must strengthen itself with a strategic approach in order to overcome obstacles and survive in the changing environment. In particular, it is imperative that FCC explore new clients. Needless to say, the biggest potential lies in the refugee camp where more than 5,000 refugees live and seeks better livelihood. If FCC is able to place stepping-stones to bridge camp refugees to self-reliable life outside the camp, it will not only hugely contribute to its financial sustainability but also make its reputation impregnable.

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<sup>25</sup> At the end of each loan cycle, FCC gives 5% incentive of extra repayment to clients with good repayment records.

<sup>26</sup> According to the National Director of INAR, the government of Mozambique is planning to issue a new type of identification to reduce the gap between Declaration and DIRE in this September. Currently, refugees need DIRE to open bank accounts and to lend money from other MFIs. However, the issue of new ID might change requirements for their financial activities and relationship with other MFIs. It is necessary to keep eyes on this movement and announcement of the central bank of Mozambique.

# Appendix A

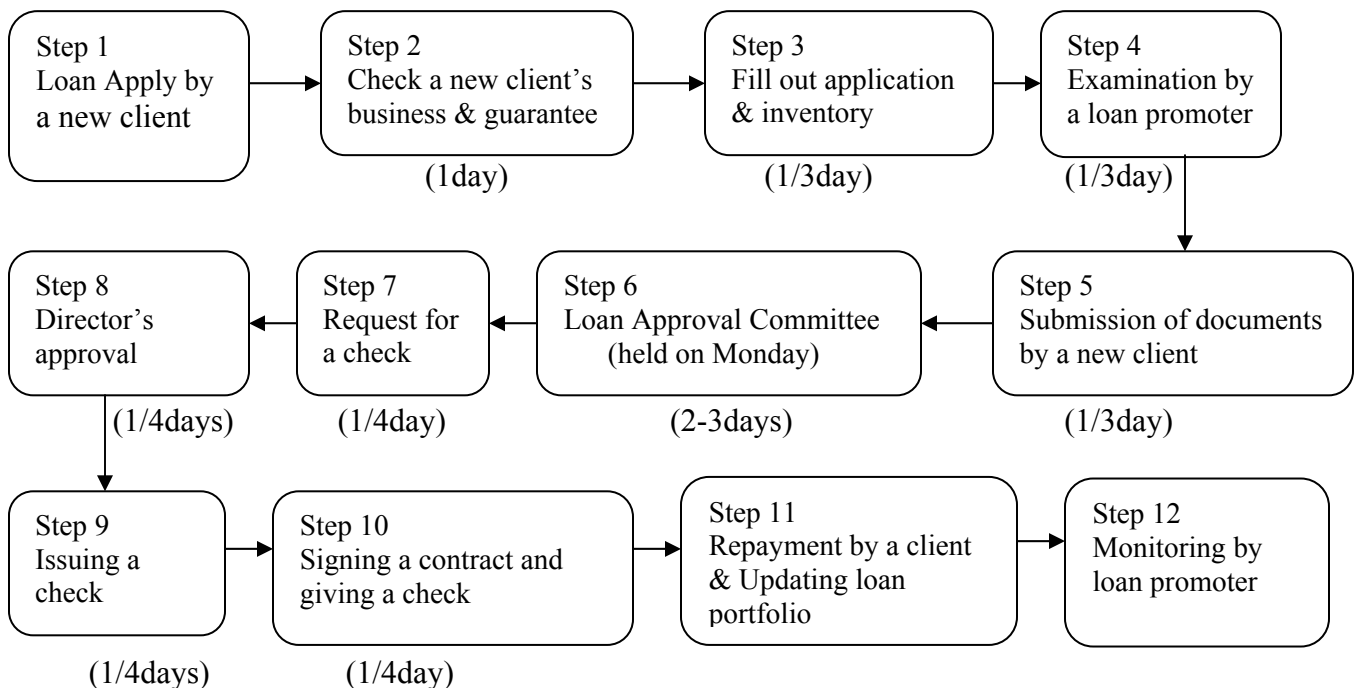
FCC Proposal Memo Part I  
Loan Procedures of Refugee Integration Program  
August 9<sup>th</sup>, 2004  
Naohiko Omata

Increasing efficiency and swiftness of routine work contributes to FCC which seeks financial independence from WR through improving its revenues and reducing expenses. This short paper reviews current loan procedures of Refugee Integration Program (RIP), points out areas of improvement in its procedure, and provides proposals for better performance.

## 1. Current loan procedures for a new RIP client

The Chart below illustrates a series of current loan procedures for a new RIP client. In case of a normal client, the process from loan application by a new client (Step 1) to giving a check to a new client (Step 10) takes 5-6 operating days (operating days: Mon-Fri).

### Chart



## **2. Areas for improvement in current loan procedures**

Observing the current loan procedure, I consider followings as areas of improvement for more efficiency and swiftness.

- 1) Clients' files (Applies to Step 3-12 of the Chart)
  - Piled up in disorder. The loan promoter and officers often struggle to find clients' files. Files of those who have loan and those who don't any more mixed up.
  - Not containing all of the necessary information. Because client information is not gathered in one file, loan officers need to look for different files for one client to collect even basic information.
  
- 2) Clients' data (Applies to Step 10, 11 and 12 of the Chart)
  - Repayment amount. The loan promoter calculates repayment amount for capital, interest and saving with a calculator. Likely to cause mistakes in numbers (Actually, there were some mistakes found).
  - Repayment schedule. The loan promoter makes repayment schedule with paper calendar.
  - Unreadable numbers and letters. Because of handwriting, some numbers and letters on loan documents are often hard to read.
  
- 3) Loan Approval Committee (Applies to Step 6 of the Chart)
  - Normally, held only on Monday (sometimes, loan officers hold it according to the request of loan promoter). Because of this limitation, in the longest case, a new client must wait for eight operating days as opposed to four operating days of the shortest case.
  
- 4) Documents (Applies to Step 3 and 10 of the Chart)
  - No spare copies of necessary documents (application and contract, etc.). Wasting time for copying documents when clients are at the office.
  
- 5) Others
  - No written manual for the loan procedure. Only loan promoter knows about entire procedures.
  - No rating for clients. Clients are asset of FCC therefore knowledge about them should be shared in FCC.

### **3. Recommendations/Proposals for improvement**

#### 1) Clients' files (Applies to Step 3-12 of the Chart)

- Classify clients' files in certain order (e.g. alphabetical order). Also separate files of current clients from former clients. No piling up of clients' files.
- Make one organized file for each client that contains all the necessary information (application, contract, payment receipt, official document, etc).

#### 2) Clients' Data (Applies to Step 10, 11 and 12 of the Chart)

- Use electrical forms for setting up repayment schedule and calculating amount of repayment (See attached forms). These forms might shorten the time for these procedures and reduce the number of mistakes.
- Write numbers and letters neatly.

#### 3) Loan Approval Committee (Applies to Step 6 of the Chart)

- Consider having this committee twice a week. In order to respond quickly to clients' needs, it might be necessary to have it more than once a week.

#### 4) Documents (Applies to Step 3 and 10 of the Chart)

- Prepare necessary documents and classify them in boxes.

#### 5) Others

- Make a written manual for basic loan procedure. A newcomer may learn quickly and systematically with it.
- Classify clients based on their repayment record and give them grades. For instance,
  - Grade 1: Excellent. Perfect repayment record. Long-time FCC clients. Have very successful business. Well integrated to the local society.
  - Grade 2: Good. Few delay in repayment. Have stable business. Integrated to the local society.
  - Grade 3: Watch-out. Often delay in repayment. Short history of loan cycles with FCC. Or any other reasons for special attention.
  - Grade 4: Defaulted.

This classification might make it clear for loan promoters what need to be done for each client.

As of June 30<sup>th</sup>, there are 76 RIP clients for one loan promoter in Maputo. Given its limited human resource, in order to attain more profits, it is necessary to pursue efficiency and swiftness of routine work. These proposals about loan procedures of RIP may help ameliorate the overall performance of the program.



# Appendix B

*Fill out only highlighted areas.*

		Informacao do Cliente (Numero: )			Informacao do Empréstimo	Termos de Pagamentos	
		Nome do Membro			Valor do Empréstimo	10,000,000	Capital
		Numero do Ciclo			Data de Desembolso	30/06/04	Juro
					Prazo (Meses)	4	Poupanças
					Juro	20%	Total
# Pagamentos	Data de Pagamento	Total a Pagar (Capital e juro, juros de Penalizacao)	Pagamento Total Peilo	Capital e Juros Pagos	Poupanças Depositadas	Saldo Acumulativo das Poupanças	C Juro
Saldo Inicial						5,500,000	
1	25/01/04	3,000,000	4,000,000	3,000,000	1,000,000	6,500,000	
2	25/02/04	3,000,000	4,000,000	3,000,000	1,000,000	7,500,000	
3	25/03/04	3,000,000	3,000,000	3,000,000	-	7,500,000	
4	25/04/04	3,000,000	5,000,000	3,000,000	2,000,000	9,500,000	
5							
6							
7							
8							
Poupanças Transferidas (para No. )					( )		
Poupanças Levantadas					( )		
Incentivos							
Poupanças Recibidas de No							
9							
10							
11							
12							
13							
14							
Saldo Final das Poupanças							

## Appendix C

### Payment schedule

**Last day of payment**

**11/23/04** ← *Put only the last day of payment*

<b>1st payment</b>	<b>7/6/04</b>
<b>2nd payment</b>	<b>8/3/04</b>
<b>3rd payment</b>	<b>8/31/04</b>
<b>4th payment</b>	<b>9/28/04</b>
<b>5th payment</b>	<b>10/26/04</b>
<b>6th payment</b>	<b>11/23/04</b>

## **Appendix D**

### FCC Proposal Memo Part II

#### Setting up goals for Loan Officers and Promoters

August 9<sup>th</sup>, 2004

Naohiko Omata

Setting up clear goals for employees (e.g. loan promoters and officers) is one of effective approaches to motivate them and increase their productivity. Based on observation of some behaviors in the office, this short paper presents the sample business cycle for FCC and proposals for better performance.

### **1. Behaviors reducing FCC's overall performance**

Followings are some examples of behaviors which are considered to be originated of not sufficiently permeating organizational goals among employees and not having clear individual targets. These behaviors negatively affect FCC's revenue and expense.

#### 1) Reducing efficiency

- Schedule and appointment. Employees should have at least rough schedule about their assignment. Also worth setting up an appointment with a client though it may not be always respected.
- The broken computer. One computer left disconnected from internet and without floppy disk function for a long time. Caused difficulty in updating client data and sending them.
- Preparation of documents. Better prepare important documents before clients come. Easy to make mistakes and miscalculation when doing it in hurry. Also no need to wait our clients for a long time.

#### 2) Making additional expense

- Private calls with office phones during operating hours.

### **2. Sample business cycle for permeating goals**

In order to permeate the organizational goals among employees and to achieve them, it is indispensable to have an established business cycle.

For instance,

#### 1) Informing organizational goals by directors

- Directors need to inform employees about the situation of FCC and the direction which FCC is heading to, and address its organizational goals.

## Appendix E

FCC Proposal Memo Part III  
Increasing the revenue in Refugee Integration Program  
August 12<sup>th</sup>, 2004  
Naohiko Omata

The most straightforward approach to increase the revenue of Refugee Integration Program (RIP) is to expand the number of clients. Based on interviews with RIP clients and Novo Bank, this paper analyzes strengths of FCC and presents proposals of increasing the number of clients.

### **1. Summary of interviews with RIP clients about FCC**

I have conducted some 10 Alchemy interviews with RIP clients in Maputo and Nampula. In addition to the Alchemy questionnaire, I asked them some questions about FCC. Following is the summary of clients' answers and comments to my questions (Because of time limit, I could not always ask all of following questions therefore the number in parentheses does not correspond to the total of interviewees.).

#### 1) How did you know about FCC?

- Through FCC loan promoters (5)
  - Loan promoters of FCC visited me while I was in the refugee camp and explained about RIP.
- Through other refugees (4)
  - My refugee friends told me about RIP.

#### 2) Have you ever tried other MFIs?

- No (6)
- Yes but rejected (3)
  - I tried other MFIs but was rejected because of lack of DIRE.
  - I went to Novo bank but it required me to have both DIRE and guarantors to receive loans.

#### 3) Why did you select FCC?

- Required documents (4)
  - Other MFIs asked for DIRE. It takes ages to obtain it.
- Good impression from loan promoters (1)
  - Compared to those of other MFIs, loan promoters of FCC were more consistent and trustworthy. Other MFIs promoters often changed what they have said so that I could not trust them.
- Reputation (1)
  - I heard good things about FCC from other refugee clients.
- Flexible payment schedule (1)
  - I could choose either 4 or 6 months. This flexible repayment schedule made it

easier for me to pay back loan.

- Saving function (1)
  - FCC provides saving function. Since I don't have a bank account, it is very helpful. Also after finishing each loan cycle, I get 5% of incentive from FCC.
- No guarantor required (1)
  - When I applied to Novo Bank, I was asked to have two guarantors of local people. It's nearly impossible to find them.

4) Have any other MFIs contacted you before?

- No (8)
- Yes (2)
  - Novo bank visited me last year for loan sale. But I explained that I have already had loan from FCC and refused it.

5) Do you have any requests or complaints towards FCC?

- No (7)
- Yes (3)
  - More support in case of trouble (1). When a thief stole my merchandise from my container, I asked for help to FCC but did not receive any support from FCC.
  - Reduce interest rates (1). It's too high.
  - Too little amount of loan and too short repayment cycle (1). I received 2.5million MTS for 2 months. It was too small and too short to repay.

## **2. Summary of interview with our competitor: Novo Bank**

There are some other MFIs in Mozambique. It is worth knowing of their recent activities as well as their lending stance. Novo Bank is one of major players in Mozambique. Following is the summary of interview with Ms. Jennifer McDonald, the Operation Director of Novo Bank.

1) How many clients does Novo Bank have in Mozambique?

- Currently, we have 90,000 saving clients and 10,500 loan clients.

2) Does Novo Bank have specific micro credit program for refugees? If so, how many refugee clients does it have in that program?

- We don't have any specialized micro credit programs for refugees. We basically treat them in the same way as local Mozambicans. Therefore I don't know about the number of refugee clients. But in Nampula we have some clients in West African community which consists of both economic immigrants and refugees. They are very good at making profitable business. Also I recently heard that Novo Bank in Nampula is receiving many applications from DRC refugees.

3) What are requirements for refugees to apply for micro credit programs?

- Two requirements for refugees, stable business and official identification (DIRE). Needless to say, having good business is indispensable no matter they are local people or refugees. In addition, we specifically require refugees to acquire DIRE. Unless they don't have this official refugee status, they are at risk of being deported to their countries, and as a result we lose our money.
- 4) What is the interest rate and repayment cycle of micro credit program?
- It depends on the amount and length of loan products. For interest rates, it varies from 3.2% to 5.9%. The longest repayment cycle is 36months.
- 5) Were there any cases that refugee applicants for micro credit were rejected though they satisfied both requirements?
- Yes. We have very strict examination on their business. Particularly, we avoid two types of applicants; those who have started new business and those who have not lived in the city for a long time. It is likely that they mismanage their business when they start something new due to lack of experience and knowledge. Also we avoid lending those who have not lived here for a long time. But even in these cases, if they have guarantors of local people, they still have a chance to get credit.
- 6) Are there any plans to loosen current requirements for refugees?
- No. The central bank of Mozambique requires all foreigners to have official identification to open their bank accounts because of its strict money laundering regulation. For refugees, official documentation is DIRE so that it is unlikely for us to loosen requirements.

### **3. Major strengths of FCC compared to other MFIs**

Considering results of interviews with FCC clients and Novo Bank, followings are considered major strengths of FCC.

- 1) Flexible requirement for documents
  - As opposed to other MFIs, FCC does not require DIRE to apply for loan. Since it takes several years to obtain DIRE, this is definitely one of major reasons to attract refugees to RIP of FCC.
- 2) Established reputation in the refugee community
  - As several clients were informed about FCC through their refugee network, FCC's established reputation has widely spread in the refugee community.
- 3) Route from the camp to the city
  - Loan promoters used to visit the camp and helped refugees start their own business with small amount of loan. As loan cycles continue, they have developed their business and become core clients of FCC, who largely contributed to FCC' profits.

#### 4) Saving function

- Although only one client specifically mentioned about saving function of FCC, this may be considered a major advantage of FCC. Refugees can not open their bank account without DIRE and, according to Alchemy questionnaire, the majority of refugees say that they do not have a safe place to keep their money.

### **4. Proposals to increase clients in RIP**

In order to increase the number of clients, first we have to find potential clients and then convey benefits of our loan program to them.

#### 4. A) How can FCC find new refugee clients?

##### 1) Contact community leaders

- According to the National Director of INAR, it is estimated that there are about 1,500 refugees in Maputo. INAR uses community leaders to convey important information to them. Consider to contact them and advertise our program to explore new clients in Maputo. Most of them are probably self-sufficient but may be looking for new lending opportunities to expand their business.

##### 2) Utilize our current refugee clients

- Ask our clients to introduce new clients. Through interviews with FCC clients, it is confirmed that Burundi refugees have a network to support each other both in Maputo and Nampula.

##### 3) Reinvigorate micro credit program in the camp

- Since there are limited number of refugees in Maputo, not only explore them in the capital, FCC also needs to create new clients by itself. Restart micro credit program in and outside the camp in Nampula with carefully selected clients as test cases.

#### 4. B) How do loan promoters attract them?

Advertise FCC's strengths.

##### 1) Requirement for documents

- Emphasize our flexible requirement for documents.
  - ❖ According to the National Director of INAR, the government of Mozambique is planning to issue a new type of identification to reduce the gap between Declaration and DIRE in this September. Currently, refugees need DIRE to open bank accounts and to lend money from other MFIs. However, the issue of new ID might change requirements for their financial activities and relationship with other

MFIs. It is necessary to keep our eyes on this movement and announcement of the central bank of Mozambique.

2) Saving function

- The majority of refugees do not have a safe place to keep their money because they can not open their own bank accounts. Advertise that FCC can keep extra repayment as their saving in our bank account.

3) 5% incentive for saving

- In addition to above, advertise our incentive system for good repayment clients. This may also encourage on-time repayment.

## **5. Other recommendations**

1) Prepare a brochure or hand-out

- Make a handy brochure or simple hand-out to explain all merits of RIP.

2) Keep in touch with INAR and UNHCR

- It is worth periodically visiting them and obtaining updated information. Especially, we need to pay close attention on regulation changes which may affect refugees' financial activities.

3) Watch out our competitors

- Even though it is not observed yet that other MFIs meddle with our clients, we should always get information from our clients about their latest activities. In particular, pay special maintenance to our good clients. We must defend these clients from other MFIs.

## **6. Conclusion**

As results of interviews with clients show, FCC has established its reputable position in micro credit industry for refugees in Mozambique with its specialized program. Particularly, flexible requirement for documents and continuous individual financial support through the camp to the city have distinguished FCC from other competitors in Mozambique.

However, our advantages can be influenced by changes in our surrounding environment. Considering the latest information about the issue of new type of ID, we should not take our document advantage for granted. If this new ID gives more stability to refugees' position in Mozambique, other MFIs might target refugees as their new clients. If other MFIs explore refugee markets with lower interest rates, FCC will be involved in the competition of so-called "interest rate dumping". Or in the worst case, there might be a shift of clients to other MFIs to seek for better financial conditions.



## **Appendix F**

### FCC Proposal Memo Part IV

Schedule to improve overall performance in Refugee Integration Program

August 12<sup>th</sup>, 2004

Naohiko Omata

#### **1. Sample schedule for implementation**

In order to improve overall performance of FCC, proposals need to be implemented in certain order. Following is the sample schedule of implementing proposals.

##### 1) The Short Term (1-3months): Increase efficiency

In the short term, we should mainly focus on increasing efficiency and also gradually start permeating organizational goals of FCC among employees.

- A. Organize and classify clients' files
- B. Organize clients' data and consider using electrical forms for more efficiency.
- C. Prepare necessary documents
- D. Set up organizational and individual goals

##### 2) The Medium Term (4-6months): Prepare to explore new clients

In the medium term, we should shift to explore potential clients to pursue more revenues.

- A. Contact community leaders and advertise our program to explore new clients.
- B. Utilize our current refugee clients to explore new clients
- C. Prepare a brochure or hand-out to explain all merits of RIP.
- D. Reinvigorate micro credit program in the camp
- E. Have weekly, monthly, quarterly, yearly meeting between employees and directors

##### 3) The Long Term (7-12months): Strengthen the institution

In the long term, we should introduce new systems and bring organizational reforms in order to further strengthen FCC.

- A. Establish business cycle for better performance
- B. Establish assessment system
- C. Introduce incentive system
- D. Make a written manual for basic loan procedure.
- E. Grade clients based on their repayment record.

#### 4) Throughout the year

Following efforts must be done throughout the year to have updated information about micro credit market in Mozambique.

- A. Keep in touch with INAR and UNHCR
- B. Watch out our competitors. Get their latest information through our clients.

## **2. Overall Conclusion**

Although FCC has already established very high status and distinctive position in refugee society in Mozambique, it still has many areas of improvement. Most of proposals on this paper may not fit local culture of Mozambique. However, considering the current financial environment surrounding FCC and its limited human resource, it is also true that FCC must evolve to the self-sufficient institution by increasing efficiency, motivating employees and exploring new refugee clients. For the sake of poor locals and refugees in Mozambique, FCC must survive in order to continuously support the poor without being affected by outside factors.