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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF MOZAMBIQUE

FOR THE

RURAL FINANCE SUPPORT PROGRAMME

TABLE OF CONTENTS

APPENDIXES

CURRENCY EQUIVALENTS

Currency Unit	=	Metical (MZM)
USD 1.00	=	MZM 23 200
MZM 1 000	=	USD 0.043

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ASCAs	Accumulative Savings and Credit Associations
AWP/Bs	Annual Workplans and Budgets
BOM	Bank of Mozambique
COSOP	Country Strategic Opportunities Paper
FARE	*Fundo de Apoio à Reabilitação da Economia* (Economic Development Support Fund)
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MPF	Ministry of Planning and Finance
NGOs	Non-Governmental Organizations
NORAD	Norwegian Agency for Development Cooperation
PAMA	*Programa de Apoio aos Mercados Agrícolas* (Agricultural Markets Support Programme)
PARPA	Action Plan for the Reduction of Absolute Poverty
PMU	Programme Management Unit
PROAGRI	*Programa de Investimentos no Sector Agrícola* (Agricultural Sector Investment Programme)
RFAs	Rural Finance Associations
RFSP	Rural Finance Support Programme

GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE
Fiscal Year

1 January - 31 December

MAP OF THE PROGRAMME AREA

Source: *IFAD*

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

REPUBLIC OF MOZAMBIQUE

RURAL FINANCE SUPPORT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Mozambique
EXECUTING AGENCY:	Ministry of Planning and Finance
TOTAL PROGRAMME COST:	USD 34.31 million
AMOUNT OF IFAD LOAN:	SDR 6.65 million (equivalent to approximately USD 9.46 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIER:	African Development Bank (AfDB)
AMOUNT OF COFINANCING:	AfDB loan: USD 16.35 million AfDB grant: USD 5.45 million
TERMS OF COFINANCING:	Parallel
CONTRIBUTION OF BORROWER:	USD 1.94 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.27 million
CONTRIBUTION OF FINANCIAL INSTITUTIONS:	USD 0.83 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

The programme. The goal of the Rural Finance Support Programme is to contribute to economic growth and poverty eradication by improving the livelihoods of rural households and the viability of rural enterprises in Mozambique. Central to achieving this goal are the programme objectives of improving sustainable access to financial services by poor individuals, groups and enterprises in rural areas and creating a conducive institutional and policy environment for the development and sustainable provision of rural financial services.

Who are the beneficiaries? Some two thirds of Mozambique's population live in rural areas and over 80% of these people are considered to be absolutely poor. This group encompasses an array of subgroups varying according to social status and economic activity. These range from: subsistence farmers with little if any monetary income, to more secure farmers on outgrower schemes and to cash crop farmers with small holdings adjacent to peri-urban areas; from village traders with minimal resources to somewhat better-off town-based traders; and from artisanal fishermen who make a subsistence living working as crew members to individuals who own two or three boats. It is this vast diversity that the Rural Finance Support Programme will serve, and an estimated 124 000 poor client households are expected to benefit from its activities.

Why are they poor? Poverty is widespread in Mozambique but there is also much potential for development and land presents no constraint. Rural poverty is caused by geographical isolation, inadequate physical and social infrastructure, and the lack of access to goods and services. Input suppliers are scarce or non-existent; markets for produce distant, unreliable and uncompetitive; financial services and consumer goods are in very short supply; and commercial linkages are difficult to establish.

What will the programme do for them? The programme's four components will work at the policy, organizational and community level. At the policy level, the programme will establish a rural finance policy support unit in the Ministry of Planning and Finance, support continuous dialogue among stakeholders by setting up a rural finance forum and develop a strategic policy framework document for rural finance. It will support pro-poor rural finance institutions and organizations by strengthening the capacity of the Bank of Mozambique, establishing a new rural finance support institution and support the Association of Microfinance Institutions. In addition to improving the macroeconomic environment for rural finance, the programme will directly assist poor rural households through enhancing income-generating activities; financing investments, better inputs and rural enterprises; and increasing their assets and savings. The Rural Finance Support Programme will use innovative approaches piloted and mainstreamed for the provision and outreach of financial services to rural areas, with particular focus on women and youth.

How will beneficiaries participate in the programme? Beneficiaries will participate in the planning and monitoring of programme activities, as well as in the activities themselves. From the baseline surveys onwards, communities will be involved in identifying needs and appropriate solutions. Self-managed savings and credit schemes will support the very poor. Gender equity will be promoted through the active involvement of women and the inclusion of conditions that promote equitable access to programme activities and their ensuing benefits.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE REPUBLIC OF MOZAMBIQUE FOR THE RURAL FINANCE SUPPORT PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the Republic of Mozambique for SDR 6.65 million (equivalent to approximately USD 9.46 million) on highly concessional terms to help finance the Rural Finance Support Programme (RFSP). The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. Mozambique has a population of 18.3 million, of which 80% live in rural areas. It is still one of the world's poorest countries, ranking 170 out of 173 countries on the Human Development Index[2]. Some 70% of the population live below the poverty line. The country is however rich in under-exploited resources. In recent years, peace, better policies, rising foreign investment and continued external assistance have all contributed to encouraging economic performance. The Government is committed to maintaining financial discipline, improving the conditions for private sector expansion and fostering development of a strong export base through liberal trade and investment policies. Key elements in the Government's strategy include: increasing public savings through revenue mobilization by broadening the tax-base and rationalizing expenditure; making public sector operations more efficient; enhancing the financial system; introducing legislative reform aimed at increasing economic security and reducing the cost of conducting business; and implementing social and sectoral programmes.

2. **Rural landscape**. The rural economy is dominated by smallholder agriculture and small-scale fisheries that despite high potential are typified by low returns which keep most families of smallholders and fishermen operating close to the subsistence level. While this is the prevalent situation, the existence of major trading partners and important deep-water port facilities has resulted in accelerated development along three main transport corridors, including the establishment of small and medium enterprises and intensified agricultural production. This in turn has increased the scope to provide technical and financial support services. Another important feature of the rural landscape is the presence of large commercial outgrowing/agro-processing operations. Notwithstanding substantial changes in the economy in recent years, much of the country is still largely uninvolved in the market economy. Many rural communities and rural traders have limited knowledge of marketing and few of the skills needed to participate effectively in it. All but the largest urban-based traders have had little or no access to investment or to other financial services. This is gradually changing as the road network is expanded and access improved, organized marketing activities penetrate remote areas and district services are slowly strengthened.

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1 See Appendix I for additional information.
2 *Human Development Report*, UNDP 2002.

3. **Rural finance**. The financial sector and the services it provides reflect the underdeveloped and undermonetized nature of the national economy. Formal institutions such as commercial banks operate almost solely in the larger urban centres, with most of their activities concentrated around Maputo. With the privatization of the banking industry and increasing foreign ownership, the number of rural bank outlets is declining. To fill the vacuum created by the absence of commercial banks, attempts have been made to extend basic financial services to rural areas through government development funds and specialized credit institutions. The microfinance industry, while showing impressive growth in recent years, is small and almost totally urban in its orientation. Current rural sector policies recognize that access to financial services for investment purposes or for coping with household emergencies is essential to raising productivity and efficiency levels among the rural population. It has become apparent that as the activities of smallholders, livestock herders and fishermen develop, more capital-intensive operations are required. Consequently, there is increasing demand for a broad range of financial services, including savings facilities, investment and working capital credit, insurance, consumption smoothening loans and financial transfers. Availability of such services has important implications for income-generation and better, more secure livelihoods. As marketing opportunities increase – through the development of infrastructure and market networks – the viability of investments in technology and advanced inputs improves and the bankable demand for smallholder and small-scale fishing loans increases.

B. Lessons Learned from Previous IFAD Experience

4. The Nampula Artisanal Fisheries Project has provided valuable experience and lessons in three areas. First, the piloting of new approaches on a limited scale has helped to avoid costly mistakes and resulted in the development of sustainable interventions. Second, it demonstrated that private sector and market forces should be allowed to drive development initiatives. Third, it has illustrated the popularity among rural groups of the advanced version of the community-based savings and credit group model. In addition it has had a good initial impact, by introducing a savings and credit culture to rural communities and by empowering low-income groups both economically and socially. The Niassa Agricultural Development Project has shown that standard microfinance institution (MFI) operations are often costly to implement in rural Mozambique and tend to result in unsustainable institutional arrangements with very limited outreach and impact. IFAD has seen from the national sector-wide Agricultural Sector Investment Programme (PROAGRI) and the PAMA[3] Support Project that if the right institutional framework is created, the Government can play an important role in rationalizing donor support and make it more effective. Finally, experience in implementing earlier IFAD interventions has illustrated that the rapidly changing economic and institutional environment necessitates responsive and flexible programme design. This should incorporate built-in feedback mechanisms that enable programme management to regularly take stock of progress and modify procedures, approaches, and workplans as necessary.

C. IFAD's Strategy for Collaboration with Mozambique

5. **Mozambique's policy for poverty eradication**. Mozambique's Action Plan for the Reduction of Absolute Poverty (PARPA)[4] provides a medium to long-term planning tool for reducing poverty through the allocation of public resources and is the policy framework within which the country's development initiatives take place. It aims to reduce absolute poverty from the 1997 level of 70% to less than 50% by 2009. PARPA seeks to achieve this by encouraging economic stability and broad-based growth; improving access to education, water, health services and sanitation facilities; development of rural infrastructure; promotion of employment and self-employment; protection of vulnerable groups; and fostering new initiatives to ensure greater availability of financial services in

[3] *Programa de Apoio aos Mercados Agrícolas*. (Agricultural Markets Support Programme).
[4] PARPA was ratified in April 2001 and endorsed by the International Monetary Fund and World Bank as Mozambique's Poverty Reduction Strategy Paper (PRSP) in September 2002.

rural areas. While rural financial services are mentioned, no strategy, plan or 'way forward' is presented in the action plan.

6. **IFAD's operational strategy in Mozambique** has been to participate in PROAGRI, while also collaborating with the Government and other donors in elaborating programmes to address rural development constraints that remain outside the scope of PROAGRI. Inadequate rural financial services present a serious problem for programmes seeking to improve market linkages/commercialization, for the expansion of small and medium enterprises and, more broadly, for the growth of agriculture, fisheries and the rural economy. The Government accepts its pivotal role in facilitating expansion of the sector and is prepared to take the lead. This significant decision coincides with IFAD's own commitment to rural financial services and associated development initiatives, as embodied in its new strategy for Eastern and Southern Africa and in its Country Strategic Opportunities Paper (COSOP)[5] for Mozambique. The former outlines four strategic thrusts: (i) promoting efficient and equitable market linkages; (ii) developing rural financial systems; (iii) improving access to and management of land and water; and (iv) creating a better knowledge, information and technology system. The COSOP, dealing specifically with IFAD operations in Mozambique, stresses: (i) commercialization and collaboration with the private sector, both for rural markets and financial services; (ii) empowerment of the rural poor to raise their own productivity and increase their assets; and (iii) the use of a programmatic rather than a project approach, which encourages involvement by the Government and private sector in the design process and promotes the participation of other financing agencies/donors.

7. **Activities of other major donors**. In the past five years, a number of donor initiatives have supported the development of financial services in Mozambique. The United States Agency for International Development (USAID) provided USD 25 million as a credit line for flood-affected companies in the industrial, livestock, agricultural and fisheries sectors. Similarly, the Italian Government through the Food and Agriculture Organization of the United Nations funded a USD 2.1 million soft loan programme targeted at fishermen. In recent years the majority of individual donor interventions have targeted microfinance operators. In addition, many also receive support from the Mozambique Microfinance Facility and the MicroStart Programme[6]. As neither commercial banks nor MFIs operate in rural districts, donors have promoted the rural credit market through the only institutional channel available: the development finance institutions. An upcoming USAID initiative will create a private sector-based *Centre for Promotion of Rural Finance.* A four-year multi-donor-supported Project for Entrepreneurial Development, (PODE)[7] provides support to small and medium-scale enterprises through commercial banks[8]. The European Union and Irish Aid are supporting a USD 3.0 million initiative for the development of Mozambican financial intermediation institutions in rural areas, targeted at the Mozambique Association for Rural Development and the Support Office to Small-Scale Industry. During design all stakeholders, including major donors, were consulted and their involvement will continue through implementation partnerships, the Rural Finance Forum and Donor Coordination Group.

8. **Programme rationale.** While there have been some important initiatives in the rural finance arena, they have not been implemented within a comprehensive planning and policy framework. Therefore, little momentum has been built up and the initiatives have remained limited in scope and in area of influence. Little local capacity has been created and the institutions involved have rarely been able to attain financially viable and sustainable operations. To make a real difference to the issue of rural finance, the subject cannot be tackled in a piecemeal fashion. It requires an ambitious and

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5 The Regional Strategy Paper for Eastern and Southern Africa was prepared in December 2001 and the COSOP in September 2001.

6 Cofinanced by the United Nations Capital Development Fund, the United Nations Development Programme and the African Development Bank.

7 PODE receives funding from World Bank, Norwegian Agency for Development Cooperation, European Union, the Department for International Development (United Kingdom).

8 Non-bank development credit institutions have recently also been included.

determined programme that will bring the key players together and commit the necessary resources to make things happen. RFSP will be a relevant response to this challenge and to the Government's policies to stimulate the rural sector through better provision of support services. Improving financial service availability by providing 'infant industry' support to practitioners is very much in line with the Government's market-driven approach to economic development. Similarly, elaboration of an appropriate planning and policy framework and capacity-building will support other development initiatives being undertaken by the Government.

PART II – THE PROGRAMME

A. Programme Area and Target Group

9. It is difficult to identify specific target groups for framework programmes such as the RFSP. Nevertheless, it is important to ensure that the development goal of the programme – poverty eradication in rural areas – is achieved.

10. **Spatial targeting**. To be effective, the programme needs to focus on areas in the country where there is a comparative advantage for implementation of the proposed rural finance initiatives. For the Innovation and Outreach Facility, the more dynamic rural areas are the most promising, as they offer high productive potential, good access and a greater amount of trade, business and economic activity. Typically, the zones that serve as hinterlands for the major urban centres and the areas along the three main trade corridors – Maputo, Beira and Nacala – are expected to be the places generating most demand for programme support.

11. **Target group**. Despite the country's impressive economic growth rates, poverty in Mozambique is severe and widespread. According to government statistics, over 70% of the national population live in absolute poverty[9]. Poverty is more pronounced in rural than in urban areas. Some two thirds of the national population live in rural areas and over 80% of these people are considered to be absolutely poor. Within the group categorized as poor, there are many subgroups varying in social status and economic activity. They range from: subsistence farmers with little if any monetary income, to more secure farmers on outgrower schemes and to cash crop farmers with small holdings adjacent to peri-urban areas; from village traders with minimal resources to somewhat better-off town-based traders; and from artisanal fishermen who make a subsistence living working as crew members on a boat to individuals owning two or three boats. It is this vast diversity of groups and needs that the RFSP aims to serve, both directly and indirectly.

B. Objectives and Scope

12. The **development goal** of RFSP is to contribute to economic growth and poverty eradication by improving the livelihoods of poor households and the viability of enterprises in the rural areas of Mozambique. Key to achieving this goal are the RFSP's **objectives** of aiming to provide poor individuals, vulnerable groups and emerging enterprises in rural areas with sustainable access to financial services and create a conducive institutional and policy environment for the development and sustainable provision of rural financial services to improve the economic opportunities and income of the poor.

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[9] Absolute poverty is defined by the Government as "insufficient income to satisfy basic nutritional needs or minimum calorie requirements" (Government of Mozambique, Poverty Reduction Strategy Paper 2001-2005).

13. The following outputs from the programme are expected:

(a) a higher number of income-generating activities and rural enterprises financed, larger volume of trade generated, and greater amount of investment and improved inputs used for crops, livestock and fisheries;

(b) more assets and savings generated/accumulated within rural communities, including by poorer members of society, such as women and youth;

(c) innovative approaches piloted and mainstreamed for the provision and outreach of financial services to rural areas such as coastal zones, emphasizing improved access to such services by the poor, women and youth;

(d) financial intermediaries operating profitably in rural areas;

(e) a new rural finance support institution legally established and operating sustainably;

(f) donor and government funds better coordinated and resources more effectively used;

(g) government capacity for planning and supporting rural finance strengthened;

(h) the capacity of the Bank of Mozambique (BOM) to deal with an expansion of financial services to rural areas strengthened, both in terms of improving and maintaining the supportive legislative environment and being able to provide the necessary supervision of institutions operating in these areas;

(i) strategic/policy framework document for rural finance prepared, consulted and regularly updated;

(j) a rural finance policy support unit established and operating in the Ministry of Planning and Finance (MPF);

(k) an association of microfinance institutions operating sustainably; and

(l) greater liquidity in the rural economy.

14. The RFSP will be of national scope. It will involve a number of donors and help create a policy, institutional and financing framework within which different initiatives aimed at supporting rural finance will be accommodated. Both national and individual initiatives will focus on specific areas of the country, thereby helping to maximize management effort and promote operational efficiency. The programme will have an initial investment period of eight years and comprise four investment components. Each of the components represents a separate and monitorable element of the programme, with its own set of objectives, outputs, activities and management requirements.

15. The pace and phasing of the programme are dictated by the need to develop the programme gradually and initially to proceed cautiously. The limited experience with rural financial services in Mozambique and the small number of financial service intermediaries operating in rural areas necessitate a progressive approach to programme implementation.

C. Components

16. The programme is divided into four investment components, as presented below.

Component 1: Institutional, Policy and Legislative Support (USD 4.8 million[10])

17. **Objective**. To *create a conducive policy and legislative framework and an appropriate institutional environment for the development and sustainable provision of rural financial services* in Mozambique, which will: strengthen government capacity to interact with financial intermediaries; promote the provision of sound financial services to rural inhabitants, especially the poor; assist in enhancing the BOM's ability to deal effectively with rural finance; and support the growth of rural MFIs.

18. **Strategy and activities**. The Government has an essential role to play in creating an enabling policy and legislative environment and providing the necessary incentives to encourage private sector financial institutions to extend their services to areas in which the cost of operating is higher, and the risks greater, than in urban centres. Such initiatives must take place in a balanced and informed way with participation by the main stakeholders and within the context of an overall strategic framework for rural finance development. While the Government's current policy documents emphasize the crucial role of improved financial services in rural development, there has been a marked absence of policy initiatives and strategic planning, and little effort made to develop practical operational guidelines or promote best practices for the industry.

19. In response, the RFSP will promote three main strategic thrusts in the form of the following sub-components: (i) Rural Finance Policy Support Unit, which aims to strengthen the capacity of the MPF to create and actively maintain a supportive policy environment to encourage the growth of financial services in rural areas; (ii) support for the regulatory environment for rural finance, aimed at promoting a sound framework for rural financial services, which can be effectively controlled and supervised by BOM; and (iii) institutional support for MFIs, targeted primarily at the creation of an MFI association to foster sound development of MFIs and facilitate their expansion in rural areas.

Component 2: Innovation and Outreach Facility (USD 17.6 million)

20. **Objective**. To *improve access to financial services on a sustainable basis for the economically active poor, rural enterprises and a broad cross section of the population in rural areas*.

21. **Strategy and activities**. This pivotal component will interact with each of the other three components, create opportunities for rural finance development and facilitate the identification and introduction of new approaches to it. To increase the supply of relevant rural financial services, the Innovation and Outreach Facility will support financial sector operators by mitigating the initial risk of bringing financial services to rural areas and assist in covering a portion of the costs of offering these services in new rural environments. It will encourage the development of innovative financial services, and when necessary, assist in the creation of new institutions or in the restructuring of existing ones. Through a combination of flexible matching grants and credit resources, backed by technical/managerial advice, the Facility will aim for a situation in which the initiatives it supports are incorporated into the mainstream activities of service providers.

22. The Facility will be flexible in its operations and in how it works with interested financial service providers and other potential partners. It will deploy the matching grants, loans and technical/managerial support in the most appropriate combination to suit the nature of the request or the project being proposed. The proportion of the matching grant offered will depend on the degree of risk being taken, the cost of starting up the new operation and the potential for expansion. When

[10] Component investment cost estimates (presented in brackets) are without physical and price contingencies.

required, credit will be issued to financial institutions on terms sufficiently favourable to allow for adequate margins when lending funds at market rates to the customer.

23. Due to the demand-based nature of the Facility, the type and characteristics of the initiatives financed will depend on the general development of the sector and the actual proposals submitted by financial sector operators. However, certain elements are key to the successful implementation of rural finance in Mozambique: (i) pro-poor strategies in rural financial intermediation; (ii) market and trade linkage support; (iii) agricultural outgrowing operations; and (iv) promotion of artisanal fisheries. In parallel with its demand-responsive operations, the Facility will focus particularly on these four elements, especially in the early years of the programme.

Component 3: Support for Community-Based Financial Institutions (USD 6.1 million)

24. **Objectives**. The overall goal is similar to that of the previous component: *to improve access to financial services on a sustainable basis for the economically active poor and a broad cross section of the rural population*. It is linked to the following objectives: increasing the stability of household economies; enhancing women's participation in economic activities; and providing opportunities to increase the profitability of household enterprises, particularly those dealing with agriculture and trade.

25. **Strategy and activities**. This component builds on successful in-country experience of financial service provision to a segment of society previously without access of any kind. This concrete experience defines the component's activities and the strategy to be followed in their implementation. The programme will work with institutions that have been successful in developing Accumulative Savings and Credit Associations (ASCAs) and Rural Finance Associations (RFAs), and in parallel help strengthen the capacity of local organizations to implement similar schemes. In addition to helping extend the ASCA and RFA programmes to other areas, the RFSP will also support the ongoing improvement of methodologies and the testing of some promising modifications through closely monitored pilot projects.

26. The component will comprise two distinct sub-components: (i) Accumulative Savings and Credit Associations; and (ii) Rural Finance Associations. The following features are common to both:

- Their operations will be *self-managed and self-sustaining*, with an injection of limited but intensive technical assistance to get started. External technical assistance will be progressively reduced by 'localizing' the training/establishment process. The role of international partner organizations will gradually be handed over to local non-governmental organizations (NGOs), members of the ASCAs and RFAs, and other associations.
- They will use *simple management procedures*, suited to rural communities, with incentives for association leadership, simple paperwork and payment processes, and ongoing auditing services by an independent organization.
- *Rigorous targeting* will be observed, including a focus on low-income communities, involvement of women as a key target group, and progressively increasing outreach to more remote rural communities.

Component 4 : Economic Development Support Fund (FARE) and Programme Management (USD 4.1 million)

27. **Objectives**. *To establish a sustainable entity to promote rural finance development* and *facilitate effective programme management and implementation*.

28. **Strategy and activities**. It was agreed with the Government to adapt and strengthen the Economic Development Support Fund (FARE) to promote rural finance in the country. FARE will be

responsible for managing the RFSP during its programme life and continue as a permanent, self-financed institution thereafter. The programme will finance the contracting of professional staff and consultants to manage programme activities. After an initial period of operations, during which all procedures and operations will be set up, tested and refined, and the programme is in full operation, the external consultants' input will be reduced and tasks taken over by FARE/RFSP staff. Operational costs will be covered by the interest-margin earned on the outstanding credit portfolio.

29. Within FARE, the programme management unit (PMU) will be charged with the day-to-day management and coordination of programme components and activities. PMU composition will reflect the bias towards contracting-in services to meet the workload and responsibilities of FARE and the programme. Financing is also provided for a team of part-time specialists to support the PMU in each of the following areas: policy/legal issues, community development/rural finance, marketing and sociology/gender issues. In addition, the component covers the funding of studies, workshops and media/public relations support; the running of a monitoring and evaluation system; and action research to support key topics of concern in rural finance.

D. Costs and Financing

30. **Estimated programme costs**. The programme will be implemented over an eight-year period. The total costs are estimated at USD 34.31 million with a base cost of USD 32.59 million. The total cost estimate includes only part of the estimated beneficiary contribution as this cannot be estimated accurately in advance. A high proportion of programme costs is allocated to on-lending capital (USD 12.06 million) and to matching grants (USD 4.03 million), which if taken together means that slightly more than half the programme costs are for demand-responsive interventions directed towards (financial) intermediaries and the rural poor. Another important element in the distribution of programme costs is the portion allocated to strengthening the institutional base to promote, manage and extend rural finance, of which 15% is allocated to building the overall policy, legislative and institutional environment surrounding rural finance. Finally, 13% is allocated to transform and strengthen FARE and providing for programme management.

TABLE 1: SUMMARY OF PROGRAMME COSTS[a]
(USD '000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
1. Institutional, policy and legislative support					
Rural Finance Policy Support Unit	1 076	463	1 538	30	5
Support for the regulatory environment for rural finance	562	238	800	30	2
Institutional support for microfinance institutions	1 258	573	1 831	31	6
Support to National Women's Affairs Directorate	585	54	639	8	2
Subtotal	**3 480**	**1 327**	**4 807**	**28**	**15**
2. Innovation and Outreach Facility	**17 531**	**102**	**17 633**	**1**	**54**
3. Support for community-based financial institutions					
Accumulative savings and credit associations	3 140	506	3 647	14	11
Rural finance associations	2 417	-	2 417	-	7
Subtotal	**5 557**	**506**	**6 063**	**8**	**19**
4. Economic Development Support Fund and programme management	**3 382**	**710**	**4 091**	**17**	**13**
Total base costs	**29 949**	**2 645**	**32 594**	**8**	**100**
Physical contingencies	337	89	426	21	1
Price contingencies	1 091	194	1 286	15	4
Total programme costs	**31 377**	**2 929**	**34 306**	**9**	**105**

[a] Discrepancies in totals are due to rounding up of figures.

31. **Financing**. The programme will be financed by IFAD, the African Development Bank (AfDB), the Government and participating financial institutions (see Table 2 for details of estimated programme financing). The AfDB contribution has been increased and negotiated for a concessional loan of USD 16.35 million and a grant of USD 5.45 million. Considerable interest has been expressed by a number of bilateral donors and discussions for participation are ongoing. The Government will cover taxes and duties.

TABLE 2: FINANCING PLAN[a]
(USD ’000)

Component	Government		IFAD		AfDB Grant		AfDB Loan		Financial Institutions		Beneficiary		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Institutional, policy and legislative support																	
Rural Finance Policy Support Unit	241	14.2	889	52.3	569	33.5	-	-	-	-	-	-	1 699	5.0	513	945	241
Support for the regulatory environment for rural finance	45	5.1	253	28.4	592	66.5	-	-	-	-	-	-	891	2.6	262	584	45
Institutional support for microfinance institutions	150	7.6	396	19.9	1 294	65.1	-	-	148	7.4	-	-	1 988	5.8	627	1 211	150
Support to National Women's Affairs Directorate	51	7.3	-	-	652	92.7	-	-	-	-	-	-	704	2.1	58	595	51
Subtotal	**487**	**9.2**	**1 539**	**29.1**	**3 108**	**58.8**	**-**	**-**	**148**	**2.8**	**-**	**-**	**5 282**	**15.4**	**1 459**	**3 335**	**487**
2. Innovation and Outreach Facility	**93**	**0.5**	**1 262**	**7.1**	**-**	**-**	**15 621**	**88.5**	**685**	**3.9**	**-**	**-**	**17 661**	**51.5**	**109**	**17 458**	**93**
3. Support for community-based financial institutions																	
Accumulative savings and credit associations	408	10.0	3 671	90.0	-	-	-	-	-	-	-	-	4 079	11.9	558	3 113	408
Rural finance associations	274	10.0	-	-	2 189	80.0	-	-	-	-	274	10.0	2 736	8.0	-	2 463	274
Subtotal	**682**	**10.0**	**3 671**	**53.9**	**2 189**	**32.1**	**-**	**-**	**-**	**-**	**274**	**4.0**	**6 816**	**19.9**	**558**	**5 576**	**682**
4. Economic Development Support Fund and programme management	**682**	**15.0**	**2 988**	**65.7**	**150**	**3.3**	**729**	**16.0**	**-**	**-**	**-**	**-**	**4 548**	**13.3**	**802**	**3 064**	**682**
Total disbursement	**1 944**	**5.7**	**9 460**	**27.6**	**5 446**	**15.9**	**16 350**	**47.7**	**832**	**2.4**	**274**	**0.8**	**34 306**	**100.0**	**2 929**	**29 433**	**1 944**

[a] Discrepancies in totals are due to rounding up of figures.

E. Procurement, Disbursement, Accounts and Audit

32. **Procurement**. The programme will comply with the Government and IFAD procedures and guidelines. Overall procurement responsibility will rest with the PMU. The Director of Finance and Contract Management within the PMU will generate annual procurement schedules by quarter from the consolidated Annual Workplans and Budgets (AWP/Bs) and will be responsible for all centralized procurement activities. The implementing agencies' financial units will be responsible for their operational expenditures and the funds they manage, in addition to recording and managing the goods procured under the programme. The PMU will provide all implementing agencies with guidelines for programme accounting and inventory controls in the form of the relevant sections of the Financial Management Manual to be produced during the first year of programme implementation. To the extent possible procedures will be harmonized with AfDB and other participating donors.

33. **Disbursement**. The programme will follow parallel financing by IFAD, AfDB and the participating bilateral financiers. Except for component expenditure financed by a single external financier, each financier will allocate an agreed amount to each disbursement category. The PMU will allocate the individual budget items to financiers according to the item's respective share of the total financing of each disbursement category[11]. To facilitate programme implementation a United States dollar-denominated special account will be opened and operated in a commercial bank acceptable to IFAD. The authorized allocation will be USD 600 000. Withdrawals from the IFAD loan account will be made in accordance with IFAD disbursement procedures, using certified statements of expenditure (SOEs) as agreed by the borrower, IFAD and the cooperating institution. Documentation in support of SOEs will be retained for examination during supervision missions and the annual audit of project accounts.

34. **Accounts and audit**. A central programme account in Mozambican metical (MZM) will be opened to receive funds both from the special account and the Government's counterpart contribution. During the first year, an initial disbursement will be made by the Government of USD 240 000 equivalent and regularly replenished in line with the AWP/B requirements. Programme accounts will be subject to independent annual audit conforming to IFAD guidelines.

F. Organization and Management

35. The overall programme will be executed under the Ministry of Planning and Finance with relevant line ministries such as the Ministry of Agriculture and Rural Development, the Ministry of Industry and Commerce, and the Ministry of Fisheries, directly involved in implementation and oversight. Institutionally, the core of the programme will be FARE, the legal entity mandated to promote rural finance. It comprises an Executive Board with full decision-making powers for the RFSP and a PMU, which will be responsible for the management of the RFSP.

36. Institutionally, FARE will be a professional and financially accountable body with executive decision-making powers. It will prepare and manage contracts, represent the interests of the key stakeholders and work within the banking legislation of Mozambique so as to be able to on-lend credit funds. Management and implementation of most activities will be contracted out to entities such as service providers, (micro) finance institutions, NGOs and consulting groups. The PMU will be charged with the day-to-day management and coordination of all programme components and activities, with the exception of two sub-components, for which it will nevertheless provide oversight: Rural Finance Policy Support Unit, whose implementation will be the direct responsibility of the MPF, and support for the regulatory environment for rural finance, for which implementation will be the direct responsibility of BOM.

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[11] In line with the planned expenditures contained in the AWP/B.

37. Three bodies will provide the basis for coordination and a sounding board for FARE and the RFSP: (i) the Programme Reference Group that guided the design of the programme and will continue to operate during programme implementation; (ii) the Rural Finance Forum, representing a broad cross section of stakeholders involved in rural finance; and (iii) the Donor Coordination Group.

38. **Baseline surveys, monitoring and evaluation.** As a national programme, the RFSP will delimit its baseline survey in order to generate only the most relevant information that will allow the PMU and other parties to assess its performance and impact. Whenever possible, the baseline surveys will be conducted in conjunction with participatory processes that form part of the initial work of the PMU and its contracted organizations in a specific area. The foundation for the *monitoring and evaluation* (M&E) system will be the logical framework and key performance indicators developed during design. Wherever relevant, gender-specific and poverty disaggregated data will be collected. The planning/M&E economist in the PMU will have overall responsibility for the definition and management of the programme monitoring system, and ensure that implementation partners deliver up-to-date monitoring information to the PMU. The M&E system will make use of reporting standards developed by the Consultative Group to Assist the Poorest (CGAP) and refer to the United Nations Millennium Development Goals so as to provide input to the specific indicators that are currently being refined in-country.

39. The programme's *management information system* (MIS) will be established to provide a comprehensive system of data collection, analysis and exchange. It will bring together physical and financial records with the main purpose of informing management on programme matters, in addition to the economic/social impact of the activities. The MIS will be the sole channel of programme monitoring material and will form the basis of quarterly and annual reports, the Annual Review and Planning Workshops, and the resulting AWP/Bs. *Programme evaluation* will aim to assess the activities' impact on the target group, with particular focus on poverty eradication. It will be the PMU's responsibility to undertake periodic and activity-specific assessments and case studies to guide the implementation process. Evaluations will adopt a participatory approach through active involvement of the target group, and take place mainly in two sets of activities: (i) those addressing policy, legislative and institutional issues; and (ii) those directly supporting provision of rural financial services by different types of financial institutions. In particular, the evaluation system will cover the impact on the economic and social conditions of rural households. Two reviews will be carried out during the eight-year implementation period, to make a strategic assessment of programme performance and impact.

G. Economic Justification

40. Both financial and economic analyses have been undertaken. Two outcomes of these are particularly pertinent. First, the programme has an economic rate of return of 8.3%, which is above the international opportunity cost of capital. Second, an analysis of financial viability of FARE/RFSP as an ongoing entity, found that FARE would be financial sustainable, i.e. capable of covering its cost of operations once programme support finishes. The financial results from the savings deposited with the ASCAs are impressive, as they clearly demonstrate the financial viability of these small-scale community-based financial institutions, and the effective protection from devaluation and physical loss that they offer for savings. With weekly deposits often as low as USD 0.20 per member, the average profit for a group of 30 members is USD 230 per cycle, equivalent to an internal rate of return of around 56%. While the returns of the RFAs are less impressive, they are still very attractive to participating families, particularly in terms of the increased trading activities financed from RFA loans. The returns from other programme-financed activities such as those arising from the Innovation and Outreach Facility should also be attractive, however, because of the demand-responsive nature of the Facility, they cannot be estimated at this time.

H. Risks

41. The major risk is that the range of activities supported by the programme will not be able to overcome the substantial constraints that are systemic in Mozambique, and will not generate sufficient momentum to make a meaningful impact. While it is acknowledged that these constraints are significant, so is the demand for financial services. Only by embarking on a comprehensive nationwide programme, providing both private and public sector resources, will there be a chance to make a marked improvement in the present situation. Currently there is limited availability of local service providers, NGOs and training institutions to respond to the need for forming/training ASCAs and RFAs and to the other demands of the programme. This could limit the pace of development and increase costs due to dependence on international organizations. This is a definite constraint at present. Recognizing this, the programme has included support to strengthen and train local service organizations. It has also incorporated as part of the support for community-based financial institutions component, the partnering/mentoring of local NGOs by international ones and the progressive transfer of responsibility for implementing the activity to local organizations and eventually community-based associations.

I. Environmental Impact

42. An Environmental Screening and Scoping Note was prepared and the programme will have neutral or limited environmental implications depending on the kind of activities supported under the lines of credit and therefore it is tentatively classified as “B”. It is expected that some credit could be provided to fisheries, agricultural activities and rural trade with possible negative impact on the environment. During implementation, staff will be trained on environmental screening and this aspect will be incorporated into the evaluation of proposed activities in cooperation with the Ministry of Coordination of Environmental Affairs. If required an environmental impact assessment will be made.

J. Innovative Features

43. As there has been little momentum in the development of rural finance to date and only limited capacity on which to build, most of the programme components by necessity have to break new ground. Only the support for community-based financial institutions component has been fully tested and implemented in Mozambique. Each of the others is either new to Mozambique, but not to other countries in the region, or represents a new way of dealing with a problem or responding to an opportunity. The creation of the Innovation and Outreach Facility is perhaps the most innovative and also the most challenging mechanism. By definition it will solicit new and innovative means of providing services in rural areas that are appropriate to a broad cross section of the rural population, including the poor. In institutional terms, unless the programme is innovative, it will be hard to alter the status quo. Consequently, new partnerships need to be developed between the Government and the formal and non-formal financial intermediaries to help achieve significant improvements in the current situation. The strengthening and transformation of FARE so that it can manage the funds and the programme will be a pioneer activity, which could provide valuable lessons, relevant also for other countries.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

44. A loan agreement between the Republic of Mozambique and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

45. The Republic of Mozambique is empowered under its laws to borrow from IFAD.

46. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

47. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Republic of Mozambique in various currencies in an amount equivalent to six million six hundred and fifty thousand Special Drawing Rights (SDR 6 650 000) to mature on or prior to 15 November 2043 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 28 October 2003)

1. The Government of the Republic of Mozambique (the Government) will open and thereafter maintain in a bank proposed by the Government and accepted by IFAD a current account denominated in Mozambican meticais for programme operations at the central level of the programme (the programme account). FARE will be authorized to operate the programme account on behalf of the Government. The Government will designate the authorized signatories for the programme account and inform IFAD accordingly. Two authorized signatories will be required for any transaction related to the programme account. The Government will replenish the programme account at least quarterly with funds available from the special account and funds from the Government's counterpart funds, in accordance with the subsidiary agreement between the Government and FARE and the AWP/B.

2. The MPF (the lead programme agency) and the MFI association will open and thereafter maintain in a bank proposed by the Government and accepted by IFAD current accounts denominated in Mozambican meticais for advances received from the programme account for purposes of programme operations for which they are responsible, in accordance with the AWP/Bs.

3. The Government will open and thereafter maintain in a bank proposed by the Government and accepted by IFAD a current account denominated in Mozambican meticais for the operation of the revolving fund related to the innovation and outreach facility component of the programme (the revolving fund account). FARE will be authorized to operate the revolving fund account on behalf of the Government. The Government will make available to FARE, through the revolving fund account, the proceeds of the IFAD loan allocated for use as credit funds, in accordance with the AWP/Bs.

4. The Government will take the necessary action to ensure that its counterpart funds for the programme are accurately reflected in its annual public investment budget. Such counterpart funds will, in accordance with the AWP/B for each fiscal year, be applied to the payment of forgone taxes and part of the operational costs for the programme. The Government will ensure that its counterpart funds are made available to FARE annually throughout the programme implementation period, in accordance with the AWP/Bs.

5. The Government will ensure that a rural finance policy support unit is established and staffed within the Planning and Budget Directorate of the lead programme agency no later than 90 days after the date of effectiveness of the loan agreement.

6. The Government will ensure that the preparation of the strategic framework for rural finance commences as soon as possible after the date of effectiveness of the loan agreement and no later than 90 days thereafter.

7. The Government will ensure that no payments are made to any contracted financial intermediary or similar implementing partner of the innovation and outreach facility until the contract has been approved by the executive board of FARE and signed by the authorized representative(s) of the PMU.

8. The Government will ensure that a memorandum of understanding is prepared between FARE and the management of the USAID-financed Centre for Promotion of Rural Finance specifying the areas of operation of each and spelling out – in those cases where there are overlaps in mandates – the responsibilities of each programme.

9. The Government will ensure that a memorandum of understanding is prepared between FARE and the Mozambique Microfinance Facility spelling out the roles and responsibilities of each in the implementation of the institutional support for microfinance institutions sub-component of the programme.

10. The Government will facilitate the functioning of the Programme Reference Group as soon as possible after the date of effectiveness of the loan agreement but, in any event, no later than 60 days thereafter.

11. The Government will ensure that, within the six months following the date of effectiveness of the loan agreement, the PMU will have prepared a programme implementation manual that has been approved by the executive board of FARE and by IFAD.

12. The Government will ensure that an intermediate review is undertaken during the latter part of programme year two and programme year four, respectively, or any other time agreed between the Government and IFAD. The Government will further ensure that the implementation of programme activities will broadly follow the phasing arrangements set forth in the approved AWP/Bs.

13. The planning/M&E economist of the PMU will develop the information management system for the programme within the six months following the date of effectiveness of the loan agreement. The system will include continuous, critical observation of progress regarding outputs to be achieved, information on activities to be undertaken to achieve the outputs, and delivery of resources required and the associated budget for these activities. Programme monitoring will be based on key performance indicators to be agreed by the Government and IFAD.

14. The Government will ensure that women are represented in the organization and management of the programme. The Government will also ensure that women beneficiaries are represented in all programme activities and that they receive appropriate benefit from the programme outputs.

15. The Government will ensure that, within the six months following the date of effectiveness of the loan agreement, the PMU will submit to the executive board of FARE, for onward transmission to IFAD, a proposal detailing its strategy for poverty, gender and HIV/AIDS targeting and the actions to be financed under the programme in pursuit of that strategy.

16. The Government will insure programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service. The Government will also ensure that the consulting organization providing the PMU consultants and other organizations contracting staff on behalf of the programme insure their staff against health and accident risks to the extent consistent with sound commercial practices.

17. Within the 90 days following the date of effectiveness of the loan agreement, the Government will select independent auditors for the programme, in accordance with procedures and criteria agreed by the Government and IFAD, to audit the accounts relating to the programme. Such selection will be subject to prior review and approval by IFAD. The Government will ensure that the annual audit report for the programme is a long-form audit report based on financial statements that have been prepared in accordance with international accounting standards and that adequately reflect the progress and operations of the programme.

18. The following are specified as conditions for the disbursement of loan proceeds:

(a) No withdrawals will be made against the loan until the Government has made the initial allocation of counterpart funds for programme year one, in accordance with the provisions of the loan agreement.

(b) No withdrawals will be made in respect of expenditures related to the credit line until the PMU has prepared the operational procedures and eligibility criteria for on-lending and matching grants to be applicable for the innovation and outreach facility component, which are to have been submitted by FARE and approved by IFAD.

19. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the Government has nominated the members of the executive board of FARE after prior approval by IFAD;

(b) a copy of the signed subsidiary agreement between the Government and FARE, in form and substance acceptable to IFAD and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government is to have been duly authorized or ratified by all necessary administrative and governmental action; and all conditions precedent to the effectiveness of the subsidiary agreement are to have been fulfilled;

(c) the PMU has been duly established within FARE, and the PMU staff (not including consultants) have been selected by FARE after prior approval by IFAD;

(d) the Government has selected the innovation and outreach facilitator and the planning/M&E economist for the PMU (consultants), after prior approval by IFAD, and submitted the draft contracts to IFAD;

(e) the Government has duly opened the special account, the programme account and the revolving fund account;

(f) the Government has submitted a draft AWP/B for programme year one to IFAD, and IFAD has approved it;

(g) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and

(h) a favourable legal opinion, issued by the Attorney General, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

MOZAMBIQUE

Land area (km^2 thousand) 2001 1/	784	**GNI per capita (USD) 2001 1/**	210
Total population (million) 2001 1/	18.07	**GDP per capita growth (annual %) 2000 1/**	11.5
Population density (people per km^2) 2001 1/	23	**Inflation, consumer prices (annual %) 2001 1/**	9.1
Local currency	Metical (MZM)	**Exchange rate: USD 1 =**	MZM 23 200

Social Indicators	
Population (average annual population growth rate) 1995-2001 1/	2.2
Crude birth rate (per thousand people) 2001 1/	40
Crude death rate (per thousand people) 2000 1/	21
Infant mortality rate (per thousand live births) 2001 1/	125
Life expectancy at birth (years) 2001 1/1	42
Number of rural poor (million) (approximate) 1/	n/a
Poor as % of total rural population 1/	n/a
Total labour force (million) 2001 1/	9.38
Female labour force as % of total 2001 1/	48
Education	
School enrolment, primary (% gross) 2001 1/	92 a/
Adult illiteracy rate (% age 15 and above) 2001 1/	55
Nutrition	
Daily calorie supply per capita, 1997 3/	2 183
Malnutrition prevalence, height for age (% of children under 5) 2001 1/	n/a
Malnutrition prevalence, weight for age (% of children under 5) 2001 1/	n/a
Health	
Health expenditure, total (as % of GDP) 2001 1/	4 a/
Physicians (per thousand people) 1999 1/	n/a
Population using improved water sources (%) 2000 3/	57
Population with access to essential drugs (%)1999 3/	50-79
Population using adequate sanitation facilities (%) 2000 3/	43
Agriculture and Food	
Food imports (% of merchandise imports) 2001 1/	14
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	37
Food production index (1989-91=100) 2001 1/	124
Cereal yield (kg per ha) 2001 1/	821
Land Use	
Arable land as % of land area 2000 1/	5
Forest area as % of total land area 2000 1/	39
Irrigated land as % of cropland 2000 1/	3

Economic Indicators	
GDP (USD million) 2001 1/	3 607
Average annual rate of growth of GDP 1/	
1981-1991	1.2
1991-2001	7.3
Sectoral distribution of GDP 2001 1/	
% agriculture	22
% industry	26
% manufacturing	12
% services	52
Consumption 2001 1/	
General government final consumption expenditure (as % of GDP)	10
Household final consumption expenditure, etc. (as % of GDP)	70
Gross domestic savings (as % of GDP)	20
Balance of Payments (USD million)	
Merchandise exports 2001 1/	703
Merchandise imports 2001 1/	1 063
Balance of merchandise trade	-360
Current account balances (USD million)	
before official transfers 2001 1/	-2 261
after official transfers 2001 1/	-1 604
Foreign direct investment, net 2001 1/	139 a/
Government Finance	
Overall budget deficit (including grants) (as % of GDP) 2001 1/	n/a
Total expenditure (% of GDP) 2001 1/	n/a
Total external debt (USD million) 2001 1/	4 466
Present value of debt (as % of GNI) 2000 1/	28
Total debt service (% of exports of goods and services) 2000 1/	3
Lending interest rate (%) 2001 1/	23
Deposit interest rate (%) 2001 1/	15

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003
2/ UNDP, *Human Development Report*, 2000
3/ UNDP, *Human Development Report*, 2003

PREVIOUS IFAD FINANCING IN MOZAMBIQUE

Project/Programme Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Amount Approved
National Programme for Food Production in the Cooperative and Family Sector	IFAD	UNOPS	HC	31 Mar 82	23 Feb 83	31 Dec 86	L-I-93-MZ	SDR 17 700 000
Nampula Artisanal Fisheries Project	IFAD	UNOPS	HC	15 Sep 93	04 Nov 94	31 Dec 02	L-I-334-MZ	SDR 4 350 000
Niassa Agricultural Development Project	IFAD	UNOPS	HC	20 Apr 94	19 Oct 94	30 Jun 06	L-I-359-MZ	SDR 8 800 000
Second Agricultural Rehabilitation Project	IFAD	World Bank: IDA	HC	10 Sep 87	26 Apr 88	31 Jan 96	L-S-8-MZ	SDR 11 850 000
Family Sector Livestock Development Programme	IFAD	UNOPS	HC	04 Dec 96	12 Feb 98	31 Dec 04	L-I-432-MZ	SDR 13 450 000
PAMA Support Project	IFAD	UNOPS	HC	08 Dec 99	07 Sep 01	31 Mar 08	L-I-515-MZ	SDR 16 550 000
Sofala Bank Artisanal Fisheries Project	IFAD	UNOPS	HC	12 Sep 01	02 Sep 02	31 Mar 09	L-I-566-MZ	SDR 14 050 000

Note: HC = highly concessional
IDA = International Development Association
UNOPS = United Nations Office for Project Services

LOGICAL FRAMEWORK

Intervention Logic	Main Indicators	M&E Source	Key Assumptions/Risks
Goal Contribute to economic growth and poverty eradication by improving the livelihoods of rural households and viability of enterprises in rural areas of Mozambique	Improved living conditions, including improved nutritional status, housing and health Poverty impact of retail loans as felt by the clients Progress towards three of the Millennium Goals: reduction of extreme poverty, reversal of the spread of HIV/AIDS and attainment of a path of sustainable development (environment)	• Baseline surveys/impact studies (Programme MIS) • PMU annual survey of selected clients of participating financial intermediaries • National household income and poverty studies (national statistics)	
			(to realizing Goal)
Programme Objectives 1. A conducive policy and legislative framework and an appropriate institutional environment are created for the development and sustainable provision of rural financial services 2. Access to financial services is improved on a sustainable basis for the economically active poor, rural enterprises and a broad cross section of the population in rural areas	• *An interactive process of policy formulation operating and new/improved policies and legislation submitted to and adopted by the Government* • *Capacity of MPF, MADER,*[1] *MIC,*[2] *MoP*[3] *and BOM to manage rural finance policy and initiatives strengthened* • MFI Association created and operating; more than 50% of MFIs active members of the association • Legal entity for the development of rural finance – FARE/RFSP – is operating and covering a portion of its operating costs • *PMU established and successfully managing RFSP.* Number of additional end-users of rural financial services: • Number of additional rural clients (men and *women* disaggregated by income level) of participating financial institutions (PFIs)	For 1 and 2: • Rural Finance Policy Support Unit reports • Innovation and Outreach Facility reports • Reports of NGOs/service providers contracted by RFSP to establish and train ASCAs and RFAs • Reports from bank selected to manage the RFSP credit line and reports from participating PFIs • Reports from the Association of MFIs • PMU surveys of MFIs • PMU progress reports	*Stability of the country's overall economic situation (that is, no major natural disasters or failed macroeconomic policies)* *Business climate is sufficiently dynamic to support viable financial service institutions* *Marketing systems are in place to handle increased rural productivity created by availability of improved financial services*

1 Ministry of Agriculture and Rural Development.
2 Ministry of Industry and Commerce.
3 Ministry of Fisheries.

Intervention Logic	Main Indicators	M&E Source	Key Assumptions/Risks
Cross-Cutting Themes A. Gender equity is integrated as a principle in the provision of rural financial services B. Rural Finance Institutions (RFIs) have factored in the expected socio-economic impact of HIV/AIDS in the design of their financial services for rural areas	• Number of additional active ASCAs and RFAs and members (men and women). A. Percentage and comparable participation and performance of women clients B. PMU, Rural Finance Policy Support Unit staff and RFI personnel knowledgeable about HIV/AIDS; business plans factor in impact of HIV/AIDS; number and type of insurance options introduced (number of participating clients)		
			(to realizing Development Objective)
Outputs ***1. Institutional, Policy and Legislative Support:*** • A Rural Finance Policy Support Unit is established within the Government to lead policy dialogue in the sector • A comprehensive and widely shared strategic framework for rural finance is elaborated and used • A representative association of MFIs is established and offers relevant services to its members • The Bank of Mozambique has the capacity to provide a conducive regulatory framework and supervise rural finance operations	• Number of trained officers and decision-makers per agency (men and women) able to deal effectively with rural finance issues • New or modified rural finance policies and legislation passed and in effect (indicating applicability to different rural social classes) • Reviewed and accepted strategic framework document available • Number of member MFIs participating in the association • Number of services offered relative to the MFI association's workplan • BOM has in effect a legislative framework and supervision capacity to ensure provision of sound financial services in rural areas	• Reports from the Rural Finance Policy Support Unit • Reports from BOM regarding creation of capacity to deal with rural finance and new legislation passed to facilitate provision of rural financial services • MFI association reports • Till 2005, reports from the Mozambique Microfinance Facility	*Government makes a commitment to develop the rural finance sector and the associated policy and legislative processes and structures* *MFIs interested in participating and contributing to the cost of running the association.* *Safeguard: Canvassing of MFIs prior to finalization of the component* *MPF continues to play the lead role in coordinating and facilitating the development of rural finance*

Intervention Logic	Main Indicators	M&E Source	Key Assumptions/Risks
2. *Innovation and Outreach Facility*: • New approaches to the provision of financial services identified and tested in rural areas • Successfully piloted new approaches sustainably mainstreamed by service providers • New service facilities opened in rural areas by existing financial operators (banks, development credit institutions, MFIs and small community-based operators) • New and strengthened rurally orientated financial institutions operational in the country • Funds from different donors and other interested parties coordinated through the Facility used effectively in supporting rural finance initiatives.	• Number and outreach of new rural products successfully tested • Number and outreach (number of clients, savings volume, loans outstanding) of new rural products mainstreamed • Number, outreach and volume of services (number of clients, savings volume, loans outstanding) of new rural service facilities established • Number and outreach (number of clients, savings volume, loans outstanding) of new financial institutions established or transformed • Amount of donors funds coordinated through the Innovation and Outreach Facility *Actual numbers to be established each year as per the programme's AWP/Bs*	• Reports from recipients of Innovation and Outreach Facility support (according to PMU guidelines) • Participatory assessment of a sample of end-users of services provided by PFIs that have received funding from Innovation and Outreach Facility • Periodical PMU reports on programme progress and donor funding	*Policies and laws approved by the Government to allow different operators to offer a wide range of financial services*
3. *Support for Community-Based Financial Institutions*: **ASCAs:** • Incremental ASCA membership exceeds 20 250 rural inhabitants (by PY8) • About 810 additional sustainable ASCAs are established • ASCA umbrella associations are established **RFAs:** • Incremental RFA membership exceeds 13 500 rural inhabitants (by PY8) • About 90 additional sustainable RFAs are established • Two additional RFA unions are established	**ASCAs and RFAs** • Outreach indicators: - Number of clients (men/women) - Number of active ASCAs/RFAs - Savings collected per month (target is >USD 200 per ASCA) - Loans outstanding per month (target is USD 564 000 for all RFAs) - Average loan size • Effectiveness indicators: ASCAs - on time repayment rate: target is >95% - % portfolio at risk for RFAs (> 30 days): target is <5% - % cycle delinquency: target is <3% of ASCAs close cycle late RFAs - on time repayment rate: target is >95% - % portfolio at risk for RFAs (> 30 days): target <5% - % continuation: target is >90% of supported RFAs continue operating	• Association Tracking Systems (ASCA and RFA promoters) reported to PMU on a regular basis by organizations contracted to implement the ASCA and RFA schemes. • Assessment reports from independent consultants on performance and impact of the ASCA/RFA contracts • Participatory assessment of a sample of end-users of services provided by organizations contracted to implement the ASCA and RFA schemes	*Continued favourable macroeconomic conditions for microfinance activities* *Umbrella associations will be effective in facilitating the establishment of new associations (ASCAs or RFAs)* *Turnover of members is minimized to allow continuity within associations*

Intervention Logic	Main Indicators	M&E Source	Key Assumptions/Risks
	- membership turnover: target <5% yearly • Sustainability indicator: - Average profit per ASCA/RFA (per month at end of each cycle/financial year) **Umbrella associations (ASCAs)/unions (RFAs)** • membership of umbrella associations/unions: target is 25% supported ASCAs and 50% supported RFAs • % attendance at umbrella association meetings • average number of visits by umbrella associations/unions to member ASCAs/RFAs • operational self-sufficiency of umbrella associations • number of ASCAs/RFAs receiving useful services from the umbrella associations		
4. Programme Management: • FARE is transformed and strengthened to promote the development of rural finance and to manage RFSP • The FARE Board will be extended to accommodate membership from the private sector, civil society, beneficiary representatives, participating ministries, the BOM and the donors participating in financing RFSP • A Programme Management Unit contracted from a consulting firm to hand over responsibility for managing FARE/RFSP to individual experts in PY5.	• The PMU is fully established as an independent management unit in FARE • The Executive Board is operating with the full participation of all members • The PMU is in place and managing RFSP	• PMU reports	
Activities			
1. Institutional, Policy and Legislative Support: . *Strategic framework for rural finance* . *Policy dialogue/institutional strengthening* . *Strengthening local training and technical assistance organizations* . *Rural Finance Policy Support Unit*			

Intervention Logic	Main Indicators	M&E Source	Key Assumptions/Risks
2. Innovation and Outreach Facility: . *Studies and managerial support* . *Matching grant fund* . *Credit line*			
3. Support for Community-Based Financial Institutions: . *Accumulative Savings and Credit Associations* . *Rural Finance Associations* . *Credit line*			
4. Programme Management			

ORGANIGRAMMES

Institutional/Stakeholder Relations with RFSP and FARE

INSTITUTIONAL, POLICY AND LEGISLATIVE SUPPORT

INNOVATION & OUTREACH FACILITY + SUPPORT FOR COMMUNITY-BASED FINANCIAL INSTITUTIONS

Client Agencies		**Multi-Sectoral Agencies**		*Promotion of Rural Finance* **FARE**		**Financial Intermediaries**		**Rural Finance Clients/End-Users**
MADER MIC	⇦	MPF	⇦	*Executive Board* *Programme Management Unit*	⇨	Banks Development credit institutions	⇨	Farmers Fishermen Business/marketing groups Traders/warehouse operators
MoP	⇨	BOM	⇨		⇦	MFIs Community finance associations	⇦	Rural enterprises Agro-processors

Programme Facilitation

⇧⇩

Partner Organizations

Marketing organizations
Outgrower companies
Market support projects
Trader organizations
Rural enterprise groups

Organizational Arrangements and Implementing Bodies