Summary of Mozambique DCA Evaluation

In 2014, ELIM Serviços Lda. conducted an independent mid-project evaluation on three loan portfolio guarantees (LPGs) established by USAID/Mozambique. Two 7-year LPGs began in 2009 in partnership with two local lenders: Banco Oportunidade de Moçambique (BOM) for $2m and Banco Terra (BT) for $4.54m. In 2011, the Swedish International Development Cooperation Agency (Sida) joined USAID/Mozambique to co-guarantee another LPG with BT valued at $9.12m.

The LPGs were designed to help Mozambican farmers and business owners access otherwise inaccessible commercial loans. More specifically, targeted borrowers include associations, producers, processors, wholesalers, retailers and exporters in the agriculture and tourism sectors. The current DCA guarantee facilities and timeframes are outlined below:

	BOM	**BT**	**BT / Sida**
Timeframe	Dec 2009 – Nov 2016	Dec 2009 – Nov 2016	Sept 2011 – Sept 2018
Facility Size	$2.0m	$4.54m	$9.12m
# of Loans Under Coverage	429 group loans (5-6 members per group)	115	20
Total Value of Loans Made to Date	$1,356,839 (50% guaranteed by USAID)	$4,374,525 (50% guaranteed by USAID)	$9,120,333 (25% guaranteed by USAID, 25% guaranteed by Sida)
Average Loan Size	$3,162	$38,039	$456,016
Typical Interest Rates	Smallholders 3% pm(declining); Traders 5% pm (declining)	14-24% pa; smaller farmers pay 18-24% pa	14-24% pa; smaller farmers pay 18-24% pa
Terms	Smallholder loans typically 5-9 months with bullet repayment; Trader loans up to 1 year with monthly payments. No collateral required; must deposit 15% of loan value in account.	Working capital loans up to 1 year; Investment loans up to 5 years. No collateral required.	Working capital loans up to 1 year; Investment loans up to 5 years. No collateral required.
Gender	75% men, 25% women	87% men, 13% women	100% men, 0% women

The evaluation's mixed-method approach to data collection included stakeholder meetings, bank interviews, association focus groups, documentation review, and quantitative surveys across three provinces. The lack of baseline data and a geographically diffuse client base presented challenges (i.e., exclusion of two provinces due to inaccessibility), so accommodations were made (i.e., use of comparable bank documents as proxies for baselines) and external resources were used wherever possible without compromising the evaluation.

The evaluation examined the loan inputs of design and development as well as the outputs, outcomes, and overall program impact in order to assess effectiveness, sustainability, and relevance. The results are summarized as follows:

- Effectiveness: 68% of clients were first-time borrowers;
- Sustainability: borrowers under the guarantees are slowly building first-time relationships with financial institutions through loans as well as savings accounts;
- Relevance: focus on financing agriculture production and land preparation services, and continued focus on produce quality and value.

The evaluation framework details follow:

OUTPUTS | Economic and Financial Additionality	
Expectations included an increased number of loans, development of new loan products, lower collateral requirements, and expansion into rural areas.	**Results** indicated that: • Agriculture grew from 0% to 7% of BOM's overall lending portfolio with a target of 25% in the next 3-5 years. BOM also created two new agriculture loan products. • BT reduced risks not covered by collateral, expanded its portfolio of large commercial agriculture enterprises, and developed a product allowing for a grace payment period, which is unique in the market.
Conclusions: The DCA guarantees enabled lenders to lend in risky sectors and serve small- and medium-sized farmers who would not otherwise have had access to these loan products.	

OUTCOMES | Borrower Behavior Change and Lender Behavior Change	
Expectations were that DCA LPGs would demonstrate that both sectors are creditworthy, and increase partner institutions' agriculture portfolios. In addition, lenders would continue to offer suitable loan products and reduce collateral requirements.	**Results** indicated that: • Rural farmers were proven credit-worthy. • BOM avoided collateral by using accountability groups to ensure repayment. • BT will continue to require standard collateral, which can make it difficult for small enterprises to access loans. • BOM is committed to increasing its agriculture portfolio; BT has not made that commitment going forward. • Neither bank made loans to tourism enterprises due to perceived risk from poor performance in the sector.
Conclusions: The evaluator recommended that banks deal directly with farmers or ensure farmer engagement in any third-party agreements. The LPG was successful in shifting the BOM risk perception in the agricultural market, while BT continues to view agriculture as a high-risk sector.	

IMPACT | Market Demonstration Effect

Expectations were that DCA's facilitation of lending expansion in these sectors would generate employment and increase productivity, which would increase household incomes, particularly in targeted rural areas. The overall expectation was that loans would be offered on more favorable terms with reduced collateral required. As well, an increase in competition between banks was expected.	**Results** indicated that: • Gains were achieved in business expansion, job creation, productivity improvement, and provision for borrowers' families, including the ability to commercialize surpluses. • The increased means to hire additional seasonal labor had a particularly positive impact on women. • BT and BOM proved that banks can adjust their services to serve specific market segments. The program also enables borrowers to build assets for future collateral. • The LPGs may not have been expansive enough to create the desired competition within market; this may be related to the projects' limited geographic scope.

Conclusions: Two business models were tested targeting various sized business, and the products proved better suited to rural smallholders. The changes to terms made by BOM as a result of the program may remain for a long period. BT, which was already lending to the agriculture sector, does not plan to make major changes to its loan terms moving forward. Overall, the DCA proved that the borrowers in the rural sector are indeed bankable and credit-worthy when products and services are designed to serve their specific needs.

Borrower Carlos Sigue displays two awards from the Government of Mozambique for his success with a loan through USAID and Sida's DCA guarantee.

Evaluation recommendations were gathered from stakeholders (including DCA), lenders, clients, and partners. Those recommendations include:

- Expand the partnership and ensure it aligns more closely with donor priorities;
- Encourage the banks to 1) avoid making guaranteed loans to repeat clients, and 2) discontinue penalties for early loan repayment;
- Increase the emphasis on women's participation and gender reporting;
- Increase measures to ensure clarity and transparency with clients as banks continue to build trust with target borrowers;
- Explore, per BT's suggestion, turning the LPG into a 10-year revolving fund, providing the ability to top up the LPG thus reducing risk exposure, providing loans with more affordable interest rates and, making more affordable capital available to the banks;

Explore, per BOM's recommendation, allowing banks to draw down on the LPG balance based on the value of claims, rather than on the value of loans disbursed.

In summary, the journey to increase the bankability of smallholders and agriculture businesses in Mozambique has begun. Perceptions of borrowers typically seen as high-risk evolved as they proved to be credit-worthy, resulting in business expansion, job creation, productivity improvement, and better provision for borrowers' families.

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