KixiCrédito – LUPP’s Sustainable Livelihoods Programme (SLP)

Good practice in the musseques of Luanda

LUPP Principles for Good Practice

- Partnership with community members and key stakeholders, such as public service providers, is key to promote participation and sustainability
- Solutions must be affordable to urban poor, yet financially sustainable
- It is important to focus on strengthening community capacity to improve their lives
- Ensure community and government ownership of initiatives with clear roles and responsibilities and accountability mechanisms in place
- Mobilise community members and key stakeholders to best develop and plan sustainable solutions
- Establish a code of conduct for key stakeholders to follow
- Value existing knowledge and ideas
- The impact of initiatives must be assessed at the household level
- Find ways to ensure the voices of women and children are listened to and they are active participants in the decision-making processes
- Ensure child protection policies are available to stakeholders and community members
- Promote equality, non-discrimination and inclusion

Through the Sustainable Livelihoods Program (SLP)/KixiCrédito, LUPP has successfully piloted a sustainable tool to assist the economically-active poor to rise out of the poverty trap. SLP now serves more than 13,000 clients in the provinces of Luanda and Huambo – more than 60% of these clients are women heads of households who have to find a way provide for the daily needs of their families.

Using international best practice principles of microfinance, adapted to Angola’s post-conflict informal economy, the SLP has lent out small amounts of money (US$50–150) without any collateral, to help establish and grow small businesses in Angola’s informal economy for those who have no access to bank credit. To date, SLP has made cyclical loans valued at more than US$12 million to microentrepreneurs mainly engaged in the marketing of items such as baked goods, fish, and charcoal to survive. With guidance from SLP, they have formed solidarity groups to co-guarantee each other’s loans. Aside from credit, the SLP has provided these beneficiaries with access to financial and other services (savings, skills enhancement, business development training and social intermediation services).

- Microfinance is an effective tool for poverty reduction
- “Solidarity Group Lending” in Angola has been demonstrated to be a key strategy in rebuilding social capital as well as livelihoods in post-conflict communities
- Practice has demonstrated that microfinance “projects” are best transformed and run as business-like microfinance institutions (MFI)
The problem of urban poverty

The majority of the poor in Luanda, lacking salaried jobs in the formal employment sector, have survived and supported their families through engagement in micro-scale businesses in the informal economy. During the years of conflict many rural people fled to the capital and supported their families through the informal economy. With the end of the war they have the opportunities of transforming their livelihoods into enterprises. They produce, or buy and sell items such as baked goods, fish, charcoal, and even water to survive. Without a credit history or traditional forms of collateral, these Angolans have little access to credit and other financial services – in order to enter the economy, they are forced to borrow from family and friends, or often from moneylenders who charge exorbitant interest rates (equivalent to 150%–300% per year or more).

Banks and other conventional financial institutions do not accommodate the needs of the poor, or even those who operate micro-enterprises. Thus, micro-entrepreneurs and the economically-active poor remain in the poverty trap because they do not have access to capital and other financial services that will allow them to start business enterprises, maintain, or expand their livelihoods. They can not buy the tools and equipment that will enhance productivity, nor access to information that will help guide business decisions, and to opportunities that can improve their capacity and develop their business skills.

A solution

The Sustainable Livelihoods Programme (SLP) of LUPP addresses the above problems by using microfinance to help the economically-active poor to access sustainable financial services (such as loans and savings), and to facilitate access to non-financial services such as skills enhancement, business development training, and social intermediation services.

The Programme works with poor micro-entrepreneurs to help them to:

a) meet their basic needs,

b) produce goods or services in makeshift premises, or are engaged in small-scale trading or retail activities, and

c) rely on their micro-enterprises as the primary source of income and employment.

Women are especially targeted as beneficiaries since they represent more than 60% of people in the informal sector, and many of them are heads of households who are responsible for providing for the needs of young children. Moreover, even for the few who qualify, formal employment opportunities for women are very limited.

Activities have focused mainly on microcredit – lending small amounts of money, without requiring traditional forms of collateral, so that the clients can grow their business. After repaying a loan, the client qualifies for a bigger loan. Repayments to the loans are rolled over and loaned out to other clients. Reasonable interest rates are charged to cover operating expenses. This way, the capital loan fund does not get depleted, but instead grows and generates benefits many times over. This is why microcredit is considered by many as a viable and sustainable poverty-reduction strategy.

In a society recovering from the devastation of long years of internal conflict, microcredit can help jump start economic activity at the lowest levels and thus spur economic growth. More important, it provides the poor with the opportunity to engage in gainful economic activity, thereby reducing the propensity to engage in negative social activities. This, in turn, reduces the potential sources of tension and decreases the probability of resurgence of conflict.

Market studies are currently underway to test the feasibility of offering other financial products such as money remittance service, individual or personal loans, home improvement loans, larger loan amounts for established clients, community access phones etc..

The SLP experience has provided three valuable lessons:

a) Microfinance is an effective tool for poverty reduction. Given guidance and the right opportunity from SLP, poor clients have become responsible borrowers, strengthened their household livelihoods and significantly contribute to local economic growth in their communities.

b) The “Solidarity Group Lending Methodology” is a viable post-conflict reconstruction tool. SLP’s experience in Angola has demonstrated that the methodology can be a key strategy in rebuilding social capital as well as livelihoods in post-conflict communities. The methodology has created and strengthened social ties in communities where little or none previously existed. In communities mainly made up of formerly internally displaced persons, the act of coming together as a solidarity group and meeting regularly provides opportunities to establish new friendships and fosters feelings of belongingness and a stronger sense of community. Thus, this methodology indirectly helps reduce tensions and prevents a return to conflict.

c) Practice has demonstrated that microfinance “projects” are best transformed and run as business-like microfinance institutions (MFIs). Sustainability is ensured by running the project as a business with the double bottom line of financial viability and social responsibility. The SLP experience has shown that transformation into a financially-viable enterprise, KixiCrédito, has made it possible to grow faster, and achieve greater depth and breadth of reach. Transformation also built a strong sense of empowerment among staff and clients alike.
The programme uses the Solidarity Group lending methodology – borrowers form groups and the members of the group co-guarantee the loans of the other members. Initially, loan applications are made as a group, loans are disbursed to the group (loans are released to the group members at the same time), and repayments are made as a group. If the group has not repaid the entire amount of the loan, the group will not be eligible to apply for a new loan. Therefore, it is in the best interest of each group member to see to it that the others repay their loans on time, and in full. Hence, the group becomes a built-in mechanism that encourages high repayment rates and client retention rates.

The Solidarity Group Lending methodology is based on mutual trust among members, hence the group is required to choose its own members. As the group matures, a feeling of collective ownership develops and social cohesion is nurtured. Thus the solidarity group methodology cultivates a sense of community where little or none of it exists. These are crucial elements that create a stabilizing effect, particularly in communities where strong social ties are absent. For instance, many communities in the peri-urban areas of Luanda are made up of individuals displaced by the war and who come from different regions and ethnic backgrounds, hence there is a weak sense of kinship and belonging to the others in the community such as one would more often find in rural areas.

The weekly group meetings not only facilitate loan applications, disbursements, and repayments – they also become a venue for members to share experiences, learn and improve their business skills, discuss and learn about other important things that affect their community (such as HIV/AIDS, health and nutrition, etc.), form new friendships. In time, members come to regard their group as their social safety net. For instance, it has been observed that group members turn to each other for help in times of need – group members help each other raise funds to pay for hospitalization of a sick member, look after the children of a member who is indisposed, etc.

Prospective clients are made aware of the programme through information campaigns in areas considered to be the target clients' communities or markets. Interested clients who meet the means-test criteria form groups over the course of a four-week orientation period provided by the programme. During the orientation, prospective clients become familiar with the main principles of microfinance such as loan terms and cost of a loan, how to select group leaders including the group credit committee, the importance of savings, and how to appraise each other's businesses.

Groups are comprised of between 10 and 30 members. The group selects its own members, and visits the places of business of potential members as part of the recruitment process. Members elect their group leaders and officers; leaders oversee sub-groups of five to seven members each. Groups set their own internal policies and voluntarily establish emergency funds. Groups themselves perform the financial management of the group after being trained during the orientation phase. Obligatory savings are collected and intended as a form of guarantee covering 10% of the loan amount.

Solidarity Group Loans are initially between US$100 and US$250 per member and upon repayment of the initial loan, the member qualifies for incrementally bigger, subsequent loans of up to a maximum of US$1,000. The amount of the loan will depend on the business cash flow, capacity of the client to pay, and the historical credit performance of the borrower. The loan period is between 5 and 10 months and repayments are made every two weeks or monthly. The interest rate is 3% per month.

Borrowers are required to set aside and save 10% of every loan amount before they can avail of the proceeds of the loan. This amount forms the Solidarity Group Guarantee Fund (SGGF). Asking clients to deposit funds before the loans are released helps to ensure that clients have an existing source of income and the capacity to repay the loan. It helps them to get into the habit of setting aside a regular amount to repay the loans they will subsequently receive. This also teaches members the value of savings and develops their financial discipline.

Loans are disbursed soon after the orientation period and are repaid through the services of a formal banking institution. The process of requiring poor clients to make loan repayments through a bank develops their self-esteem and improves their confidence.
Achievements

SLP, which pioneered microfinance in Angola, was transformed into Angola’s first non-bank microfinance institution called KixiCrédito in 2006. Over seven years the SLP has improved the quality of life and self-esteem of the economically-active poor by helping them build small businesses. It has helped rebuild the economic life in the peri-urban communities of Luanda. It has replicated its model in other provinces. KixiCrédito, by the end of 2006, has more than 13,000 members of solidarity groups, 64% of whom are women. The clients are served by five (5) SLP branches in Luanda and one (1) branch in the province of Huambo. It is expected that there will be 15,000 members by the end of 2007 – this is 140% of the initial planned target. Eighty-seven (87) clients have qualified for the larger and longer-term KixiNegocio loan, as they have a proven track record of good repayment and have developed their enterprises into small businesses that require much larger capital. Likewise, there are 35 clients of the KixiCasa Loan Product (housing improvement loan) being piloted in Huambo Province.

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units/branches</td>
</tr>
<tr>
<td>Number of clients/members</td>
</tr>
<tr>
<td>Number of women clients/members</td>
</tr>
<tr>
<td>% of women</td>
</tr>
<tr>
<td>Number of active clients with current loans</td>
</tr>
<tr>
<td>% of women</td>
</tr>
<tr>
<td>Loan outstanding balance</td>
</tr>
<tr>
<td>Portfolio-at-risk &gt; 30 days</td>
</tr>
<tr>
<td>Loan losses (last six months)</td>
</tr>
<tr>
<td>Repayment rate</td>
</tr>
<tr>
<td>Number of active savers</td>
</tr>
<tr>
<td>% of women</td>
</tr>
<tr>
<td>Guarantee savings fund</td>
</tr>
<tr>
<td>Operational self-sufficiency</td>
</tr>
</tbody>
</table>
As of September 2006, KixiCrédito has disbursed loans amounting to more than US$12 million. Of this, around US$7 million were loaned out from January to September 2006. The programme demonstrates healthy performance indicators — an average repayment rate of around 94% and an average portfolio at risk for more than 30 days of 5%.

KixiCrédito also manages to generate an average yield of around 5% per month, a relatively high return on the portfolio, an indication that the project has great potential for viability. A positive OSS (Operational Self-Sufficiency or the ability to recover operating costs) was achieved in the first quarter of 2006 and FSS (Financial Self-Sustainability or the ability to recover operating costs plus the cost of funds) was attained at the end of 2006.

SLP/KixiCrédito has been selected as one of the lead partners of the Microfinance component of the Angola Enterprise Programme (AEP), a public-private partnership between UNDP, ChevronTexaco and the Government of Angola. AEP supports the development of the micro, small and medium enterprise (MSME) sector. SLP was selected as a partner because its experience in the financial sector will allow it to make valuable inputs in the formulation of appropriate policies, as well as legal and regulatory frameworks for the microfinance sector in Angola.

SLP has provided technical assistance to UNHCR, the Christian Children’s Fund and the International Migration Organisation (IOM) to help them develop their respective microfinance programmes. In addition, the Microfinance Unit of Banco Nacional de Angola designated SLP as a member of the technical working group that will provide inputs in drafting the microfinance regulatory framework for Angola.

Impacts

**Improved livelihood security**

The solidarity groups foster social cohesion, and build and strengthen social ties. Bonds of camaraderie and friendship are formed and the experience shows that members of the groups provide a social safety net for the most vulnerable. More directly, members of solidarity groups have generated more income from their businesses and have used the profits to secure assets for their businesses and their households. All these provide improved protection against social shocks such as illness or other unexpected expenditures. Members have been able to make improvements to their homes, send more children to school, pay for health treatment for the family and increase the number of meals per day.

Albina Lussinda said: I am 33 years old and have five children. With the first loan of 150 Dollars I bought 15 x 25 kg sacks of rice. Eventually, I have been able to buy a gas cooker and a set of chairs with the profits from the business, and pay the children’s school fees. In a good week I make 30 Dollars in profits.

Kiala José Lutonâdio said: with the increased business that was made possible by my loans, I have built my own house and bought a refrigerator. I now have a capital of 2,000 Dollars for my business.

**Catalyst for change**

Solidarity groups have not only helped members to address common problems, but have made members realize that through collective action, it is possible to act on and resolve problems in their communities. Confidence in their ability to initiate change from within will be a potent weapon for community growth and development.

The Solidarity Group “Senhor nos ajudou” wrote that “the Group was founded in February 2002, with 38 members (25 women and 13 men). After operating as a Solidarity Group for three years, we decided to found a Community Development Organisation to tackle problems in our bairro.”
Lessons learned

Advocacy and policy influencing

International experience has shown that microfinance is an effective tool for poverty reduction. However, the full range of benefits can only be derived from microfinance if it is allowed to operate in an enabling environment. In countries where the financial sector does not have the supporting structures and regulations, the Government must be encouraged to adopt a policy (and the associated regulations) promoting microfinance as an effective tool to fight against poverty. The SLP experience has shown that the advocacy and policy influencing tasks are made easier if a pilot project can demonstrate the positive impacts on a significant number of lives and that microfinance operations can be sustainable.

Capacity building: key to sustainability

In microfinance, sustainability is a situation where the results of operations have generated enough income to provide a significant number of economically-active poor with continuous access to credit and other financial services. However, reaching a critical mass of clients at a minimum cost, while deriving reasonable levels of income, is challenging. For one, it is always more expensive to process and service a small loan (of say, $100–$150) as opposed to a bigger loan of say, $100,000. By extension, it will be more expensive to extend many small loans to many individual borrowers. Thus, microfinance operations demand that higher levels of efficiency must be attained to reach profitability. Operational efficiency requires skills that ensure financial discipline and quality service, but only a proficient and skilled staff can provide such a service. In countries such as Angola where there is a scarcity of qualified professionals who can implement microfinance using international best practices, an appropriate staff training programme is key to achieving efficiencies that would lead to sustainability. The SLP experience has shown that a significant investment in building staff capacity (i.e., formal and informal training) will positively impact outreach, efficiency, and profitability.

Shift in mindset from SLP to KixiCrédito

To be more effective as a poverty-alleviation tool, microfinance must be implemented using a new mindset. The manager must have “a good business sense” and the “project” must be transformed and run as a business-like microfinance institution (MFI). This requires a radical shift in the basic assumptions and behaviour of both staff and clients alike. For the staff, this means being concerned with efficiencies and profitability, as well as attaining the stated social objectives. On the other hand, the beneficiaries must come to realize that they are clients of a financial institution, that the loans they are obtaining are not grants or handouts, and that the loans must be repaid. All these require a significant change in mindset, organizational culture, and operating systems and structures as SLP is transformed into the independent microfinance institution, KixiCrédito.

Replication

SLP has provided training and advice to several local organisations that are setting up small-scale microfinance projects in Angola. The costs of replication will depend on the projected size of operations – a small, seven-person operation microfinance project will require a start-up budget of around US$200,000. This will allow for a monthly average outstanding portfolio of around US$400,000. Such a project may periodically need additional funding to meet operational costs and to achieve sustainability. Depending on operational efficiency, portfolio quality and pricing, an MFI may reach sustainable operations in 3 years if it is able to grow to scale quickly.

The basic principle in achieving sustainability is to charge the right price for the microfinance products and services, particularly for loans. The interest rate charged should be enough to cover all operating expenses, the cost of funds, and the effects of inflation, plus a reasonable margin for institutional growth. Donor funds are required for initial growth but will not be available forever, so the interest rate must eventually cover the costs of operation.

The tools used to meet the goals of the Programme are as follows:

Means Testing Tool

The Means Testing Tool is used as a selection tool to ensure that the programme is targeting the desired target clientele, the economically-active poor.

The Loan Performer

The Loan Performer is a deposit and loan-tracking management information system designed to verify the client’s balances instantly, and enter operations data directly. New balances are automatically reflected on the accounts. The Loan Performer has five sub-systems – the client registration module, the shares module, the savings module, the loan tracking module and the accounting module. The Loan Performer can provide the commonly requested indicators such as: repayment rates, ageing, portfolio-at-risk, field assistant performance, and operational and financial efficiency.

Client Exit Interview Tool

The Client Exit Interview Tool is used whenever a client drops out from the programme, to understand why the client has dropped out and what steps should be taken to improve the delivery of services.

Departmental team meetings

Each department and branch holds weekly meetings with their respective teams. These meetings are designed to provide feedback from each team member about field operations and delinquent loans. These meetings also allow branches to cross check information from the Loan Performer with their own.

Periodic monitoring visits

The Programme Manager and/or Programme Coordinator carries out periodic monitoring visits to each branch to:

a) provide support,

b) obtain feedback on how the branches operating, and

c) provide technical advice to ensure the quality of the service.
What is LUPP?

The Luanda Urban Poverty Programme (LUPP) is a partnership between CARE International, Development Workshop, Save the Children UK and One World Action. It is supported by the Department for International Development (DFID) and has been ongoing since 1999. The second phase, LUPP2, ran from April 2003 to September 2006. LUPP2 was implemented in four of nine municipalities in Luanda, namely Sambizanga, Cacuaco, Cazenga and Kilamba Kiaxi.

What does LUPP do?

LUPP partners work in collaboration with the Government of Angola to support the government to meet its declared goal of halving poverty levels by 2015. The programme is implemented in partnership with civil society organisations, NGOs, service providers and government departments/ministries. LUPP engages to promote pro-poor policies, especially in seeking to guarantee the provision of basic services to Angolan citizens.

The purpose of LUPP2 was to influence equitable, inclusive, pro-poor policies and best practices for Angola for poverty reduction in urban Luanda. The policy influencing agenda was the overarching framework of the programme. LUPP seeks to influence poverty reduction in Luanda by:

- Demonstrating effective, sustainable, inclusive and replicable best practice strategies (models, methods and approaches) for basic service delivery (water, sanitation, rubbish collection, community crèches), livelihood support (microcredit, savings, Business Development Services (BDS) and consumer cooperatives), social capital, governance and poverty reduction more generally which can be effectively replicated in poor urban areas to bring about positive change in the lives of poor urban families;
- Facilitating active learning and understanding on urban poverty issues and policies by key stakeholders and producing strategic information on the lessons, messages and methods emerging from the models and approaches, adapted to demands for policy relevant information;
- Strengthening the commitment and capacity of local authorities and civil society to promote and implement inclusive and participatory local development;
- Promoting greater engagement, inclusion and accountability between government and civil society on urban issues, largely through the creation of spaces in which different actors can come into contact with the lessons, messages and methods, absorb their implications and take forward the work of integrating them into policy and practice.

More information on LUPP can be found at www.luppangola.org

Author and content: The Sustainable Livelihoods Programme team
Production: Kate Ashton
Photos: Tim Hetherington
Design: Paul Coyle