

3 Developments

Development Workshop's Quarterly Newsletter

January, February, March 2006

Lending
money
to the
poor
pays off

**Microfinance
sustains
economically-
active poor**

Microfinance is a hot topic in Angola as the country seeks to rebuild after 27 years of war. More and better economic opportunities are desperately needed since with little economic activity outside of oil and diamonds, the vast majority of people struggle to eke out a living.

During the war, informal selling of products, from soap to bananas, flour to textiles, was the principal survival strategy for almost 80 percent of the population. Today, it remains the primary source of income and employment for more than 50 percent.

The Angolan government, influenced by international recognition of microfinance as a mainstream development strategy, mandated the Banco Nacional de Angola (BNA) to develop the sector through its newly established Microfinance Unit under Director Dr. Irene Sobrinho.

"We see microfinance as an important tool for alleviating poverty," said her assistant Mario Julio.

"Angola was fighting for so long and most of the economy was destroyed. Most people have some kind of small business just to survive. The government realises it should do something to provide sources of funding to those people who are economically active."

The Angolan Network for the Micro-enterprise Sector (RASME), of which DW is a founding member, is also trying to spur development by assisting access to funds and lobbying politicians to create a productive climate for small businesses.

"A large part of the population has no basis for economic activity. One of the aims of RASME is to create this basis which, together with other factors such as better education and health, and a recovery in the agricultural sector and employment growth, will help many Angolans climb out of poverty," said Bay Kangudi, RASME's Coordinator.

Potentially hundreds of thousands of small-time entrepreneurs could benefit hugely from any increase in economic opportunity, but faced with limited access to formal financial institutions such as banks, breaking the cycle of poverty is tough.

Development Workshop began research in the local enterprise sector in 1992 and piloted solidarity group lending on a small scale in 1995, adapting the Grameen Lending Methodology after visiting the world famous program in Bangladesh. This ultimately evolved into the Sustainable Livelihood Programme (SLP), launched in 1999 in Luanda, providing small enterprises with basic funding and business skills. Expanded by popular demand to Huambo two years later, it started out offering loans of \$50 to \$150.

With the arrival of peace in April 2002, it soon became clear that there was an appetite for a much bigger, broader and more professional microfinance offering, but still based on the Kixikila spirit.

"The basic idea of building a microfinance institution began with the SLP in 1999 as part of the Luanda Urban Poverty Programme (LUPP), but there is a huge demand for microfinance services," said Roland Villanueva, DW's microfinance program manager. "Everyone in Angola is very entrepreneurial, everyone wants to earn money. If we can provide them with capital, they can do better in business and have better lives," he added.

Already expanded to five branches — four in the capital and one in Huambo, the SLP programme is transforming itself from an NGO project to a self-sustaining business venture. Now called KixiCredito, the project will become the first ever true non-bank microfinance institution in Angola, incorporated under Angolan law and aimed at growth and profitability but still focused on providing loans to the economically-active poor.



photo by H. Koning

Hundreds of thousands of small-time entrepreneurs could benefit from any increase in economic opportunity

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“It will still use the solidarity principle – where if one person fails, everybody pays – but we want to move away from being a microfinance project run by an NGO. Unfortunately there is a perception that because we are a non-profit organisation, it’s ok if clients don’t repay the loan. We want to change that and this is a key part of the commercialisation of microfinance,” Mr Villanueva said.

Because donor funding in Angola is becoming more scarce, Mr Villanueva said it was crucial that KixiCredito demonstrate that it could operate through sustainable means. Already, DW is borrowing capital to finance the loans on a commercial basis from Banco de Fomento Angola (BFA), rather than solely depending on grants from donors as it has done in the past.

“This is not just a goal, it is a necessity,” Mr Villanueva said.

As the number of quality clients increases – over 10,000 with a loan portfolio of \$2.1 million – so does the chance of making a profit.

“At the moment we are growing rapidly. If everything goes well and we keep expanding our client base, we should be fully sustainable by the end of 2006,” Mr Villanueva added. DW

Kixikila to KixiCredito

Development Workshop has taken inspiration for its work in microfinance from Kixikila, an age-old Angolan form of community savings that is also common in developing nations worldwide. Under this traditional system, still in use today, friends or colleagues join together and agree to pay a sum of money daily, weekly or monthly into a communal pot. Each member takes a turn in withdrawing the entire sum to spend as they see fit. DW’s KixiCredito offers loans to small-scale businessmen and women who support each other in client groups.

F oreword

The majority of Angolan households are dependent on the informal market for a living. Angolans engage in all sorts of livelihood activities and most have already established small businesses, yet most lack access to the range of financial services they need. Financial services available to them are relatively costly or rigid - loan sharks are exploitative while banks are too conservative. For this reason, DW’s Sustainable Livelihood Program (SLP) was born and has now been transformed into KixiCredito with the prime mission of providing sustainable microfinance services that are simple, easy and quick to access.

Our name KixiCredito was adopted from the local revolving credit and savings associations- the ‘Kixikilas’. We believe that microfinance is necessary in the fight against poverty, but it is not a “cure all” for poverty. The question then is, “When and how can microfinance contribute to the alleviation of poverty? When it becomes important?”

Microfinance only matters when it is implemented to perform its proper function. Credit can only alleviate poverty *when opportunities to generate income are present*. Credit per se cannot create livelihood opportunities that do not exist. If credit is granted because of the non-existence of income

generating opportunities, then, it will negatively affect repayment capacity and make poor clients poorer. It promotes a culture of non-repayment, which affects social capital that may create a society of distrust. Microfinance therefore, can only alleviate poverty when the poor have the opportunities to generate income.

At KixiCredito, our mission is our client’s success; our vision is a sustainable Angolan microfinance institution. We take pride in the success of our clients because they are our Business Partners. DW

by DW
Microfinance
Program Manager
Roland Villanueva



photo by B.Antunes

Roland Villanueva displays giant mushrooms sold in Huambo Market

Focus on DW staff

Former security guard achieves microcredit program's top position

The arrival of Lauriano Gabriel Tchoia on his trusty motorbike at KixiCredito

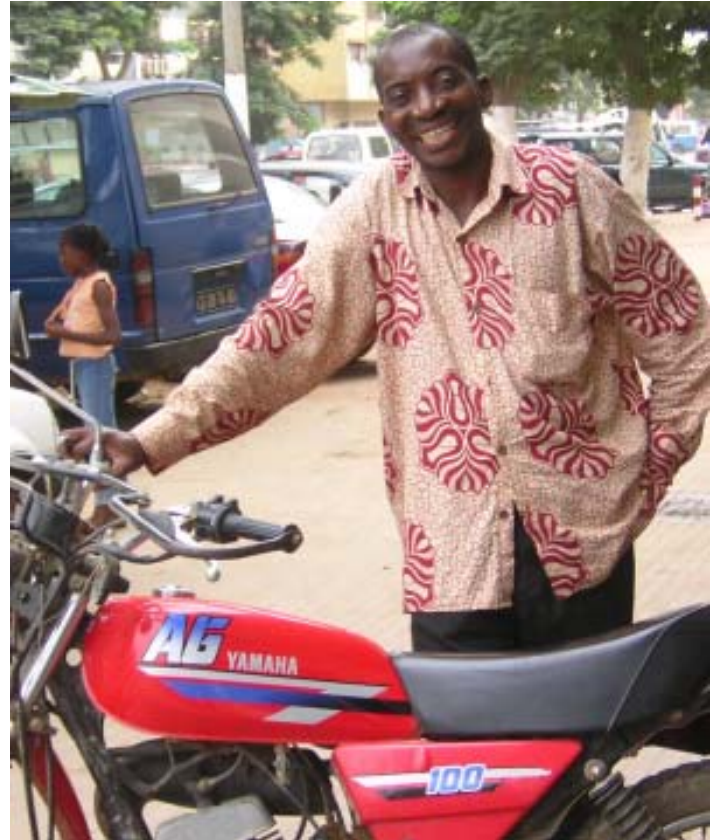
branch office in Sao Paulo is the only distraction to disturb a weekly solidarity group meeting. All talk of repayments and business problems is put on hold as the group members clamour to shake Mr Tchoia's hand.

Smiling, open, sympathetic and friendly, Mr Tchoia has been working in DW's Sustainable Livelihood Programme (now called KixiCredito) since 2003 and has helped scores of clients transform from street-sellers scraping a living to thriving small businesses.

"Some of my clients call me the *professor* because over the years I have given them so much advice and help," Mr Tchoia laughs. "I love helping people and making a difference. The feeling I get from doing good is better than any salary."

A former soldier who began his career at DW as a security guard back in 2000, Mr Tchoia had to push hard to get where he is today. Moving from security to several of DW's other projects, he finally found his dream job within the microfinance unit.

"I didn't even know what microfinance was in the beginning, but when I applied to do a 12-week course within DW and was accepted, I found that the whole subject really appealed



Lauriano Tchoia in front of KixiCredito office in Sao Paulo photo by H. Koning

to me. It is very dynamic," says the father of four.

Starting as a credit officer at the Hoji-ya-Henda branch, Mr Tchoia found that his ability to listen to clients' problems and motivate them to attend meetings and make repayments came naturally, helping to make his branch DW's best performer.

Promoted in February 2006 to the newly created position of KixiCredito Operations Manager, Mr. Tchoia believes that the 13 years he served in the army, at one point as a commander with over 200 men under him, has given him valuable experience and he says, "It keeps me humble."

Presently studying for a Bachelor's degree through Uganda's Martyrs University*, Mr Tchoia also received training from Banco Real in Brazil on Individual Lending Methodology. Under his supervision, in 2005 the Sao Paulo branch and its five credit officers hit their target to bring in more than 1,000 clients in five months instead of a year reaching a loan portfolio of more than \$200,000.

As Operations Manager, his main task is to supervise all branch operations and also to direct the new delinquency monitoring unit. **Congratulations Senhor Lauriano!!** DW

* Five of DW's employees are studying for a 'Microfinance in Economic Development' Bachelor's degree at Uganda's Martyrs University. The four-year distance learning course, with one month a year on campus, has helped DW learn from the experience of other countries and hammered home good microfinance

DW Developments is published quarterly in English and Portuguese by Development Workshop Angola. Dw is a non-profit organisation working to improve living conditions for the poor in less-developed communities. Its programme focus areas include shelter, peri-urban settlement upgrading, water and sanitation, primary health care, small enterprise development and disaster mitigation. DW's strategy is to strengthen communities and organisations to act on development problems and opportunities.

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Microfinance opening windows of opportunity



photo by T.Hetherington

If one person fails, everybody pays - the solidarity principle



photo by T.Hetherington

Members make repayments every week for 16 weeks



photo by T.Hetherington

Successful clients are eligible to join a 'graduate' group

A little over three months ago, Rosa Pinto was down in the dumps. Struggling to provide for her six children, she sold soap powder from a roadside stall in the Vila Flora neighbourhood of Cazenga, in the congested outskirts of Luanda.

"I never had much money to buy stock and I certainly didn't have much money left to improve the house. Once I bought food and other essentials, there was rarely any money left over," Ms. Pinto said.

When DW and the then Sustainable Livelihood Programme, now known as KixiCredito, raised the possibility of Ms. Pinto and others joining together as a group to receive a community guaranteed loan, they jumped at the chance. Busy repaying her first loan of \$250, she is now much more hopeful about the future.

"I have already started to vary my stock and I think business is looking up. I still worry about money, but I have more food in the kitchen cupboard and I feel more independent," she said.

Over 10,000 clients benefit from Kixi Credito

Ms. Pinto, who wants to continue borrowing money so that she can eventually move to a small kiosk or 'cantina', is just one of over 10,000 clients benefiting from KixiCredito.

"There is a huge demand. Disbursements average around \$600,000 per month and some days we disburse up to \$180,000" said Lucie Manirambona Piassa, Finance Manager of Kixi Credito.

Rooted in the traditional KixiKila system (see page two), KixiCredito employs 63 staff of which 43 are credit officers who venture into communities and identify potential groups – communities, markets and churches – who could be eligible for loans. Interested parties must organise themselves and demonstrate that each group member has a visible source of income, no matter how small.

"We don't fund start-ups, but as long as the group members can prove that they know how to make a living and that they understand and appreciate the value of money, then they are eligible," Ms. Piassa explained.

KixiCredito helps to organise the groups, usually between 10 and 30 members, supervising the election of a management committee and appointing a credit officer to monitor progress.

Members apply for a loan to the group-appointed credit committee, which evaluates the application and passes it via the management committee to KixiCredito staff who analyse the application.

"This way all members of the group are involved," said Ms. Piassa. "If the loan is approved, then all members of the group guarantee the loan. If one person fails, everybody pays. This is the solidarity principle."

The average loan is around \$150 per person or \$3,000 per group. Members make repayments every week for a period of 16 weeks at an interest rate of 10 percent for community groups



photo by T.Hetherington

Microfinance Windows of Opportunity continued from page 4

and 12 percent for more disparate groups set up around churches or markets.

“The rate of interest is quite high by formal bank standards in developed countries, but it is comparable to, or even lower than, rates in the microfinance world,” said Mr Roland Villanueva, a former banker with 11 years experience now heading up the DW initiative. “It is much cheaper than rates on the informal market, which most people used in the past, which are as high as 100 percent per month.”

Back in Vila Flora, Ms Pinto’s solidarity group, who have chosen the name ‘Good Shepherd’, is holding its weekly meeting. Apart from collecting repayments, the get-together is a chance to learn from each other about basic business.

“I’m learning more from the group every week,” said Maria Gervais, who sells beverages in the local market. “We share experiences and problems and I feel I know a lot more about trade. I have much more confidence and I want to get another loan so that I can invest more

Successful clients learn more and qualify for bigger loans

in the business and hopefully start saving,” she added.

After four successful loan cycles, clients are eligible to join a ‘graduate’ group where they can borrow up to \$1,000 and under the new KixiNegocio, a loan system for those whose businesses have already seen some successful expansion, KixiCredito plans to offer loans of \$2,000 or more.

“Many of our clients are now passing on to the next level of business — perhaps they now have a stall, rather than selling their goods from a basket. In these cases, a \$200 loan is no longer appropriate,” Mr Villanueva said.

One such client is Fuku Panzi, who proudly gives a tour of his immaculate grocery store. Mr Panzi has progressed through six loan cycles in his solidarity group and has recently received a graduate loan of \$3,000. He has big plans to expand and build an office. He has created jobs for several family members in the business and is already able to remodel the family home using profits.

“This is my life now, and I’m happy. I can grow old safe in the knowledge that my kids will be provided for,” the father-of-seven said.

Of course, some clients fall behind on their reimbursements.

“There is always portfolio risk in any financial institution. But we have instituted a delinquency team which has brought our risk down from 20 percent last year to around three percent now,” Mr Villanueva said, adding KixiCredito aimed to keep delinquency to below five percent.

Talking to clients — reminding them of their responsibility to the rest of the group and offering practical advice to solve any problems — has born fruit. Mr Villanueva claims the

Replacing NGO image reduces delinquent payments

loan default rate — the loans which are never repaid — was close to zero percent this year. “With the switch to the KixiCredito name, we are managing to change a perception that they don’t have to pay back because DW is an NGO. Now our clients know we are serious,” he said. Attracting more clients is not a problem, but as KixiCredito seeks to become self-financing, securing capital from banks or donors to back the loans and managing liquidity pose new challenges.

“We more than doubled in size between 2004 and 2005, and we could easily do that again, but we have to control how we expand because the more clients we have, the more capital we need,” he said.

KixiCredito client Andre Kinanga, hopes the loans will keep coming. Increasingly ambitious after receiving six loans totalling \$840, he wants to upgrade his kiosk in Cazenga to a fully-fledged shop. “When the war ended we had hope but we had nowhere to direct it. Now, thanks to God and thanks to this credit, our hope has a structure. It is more a reality.” DW



photo by T.Hetherington

A group member must have a visible source of income



photo by K.Iley

The average loan is around \$150 per person



photo by K.Iley

Mr. Panzi received a graduate loan of \$3,000



It is vital to have microfinance officers with the basic skills and knowledge of credit and collection but Angola simply doesn't have these human resources according to DW Microfinance Program Manager Roland Villanueva.

Instead, DW has launched an in-house training system, modifying courses developed by the Consultative Group to Assist the Poor (CGAP) to teach its staff about interest rate pricing, microfinance accounting, delinquency management and control and operational risk management.

Potential credit officers must be motivated — they have to give up their free time and pay their own bus fare to attend Saturday classes and workshops, if they want to succeed.

"The in-house training program has a competitive selection process via an initial exam and the students must sacrifice their Saturdays to attend, but it's amazing, this system pays off because you can see it in the performance of staff," Ms. Veronica Jose, who is in charge of Methodology Training, said.

Some of those trained in the Saturday classes are now conveying their knowledge to the wider community in DW-run public microfinance training courses in Luanda and Huambo.

"These courses explain all about microfinance and involve lectures and group exercises as well as time in the field," said Ms. Jose. "It is a way of spreading the word that microfinance works, so it benefits the institution and the community. It's a business with social responsibility."

The next CGAP course is scheduled for March. **DW**

Microfinance experts for hire! Under the banner of the Sustainable Livelihood Programme (SLP), DW is starting to roll out some project management services, giving the benefit of its expertise to others working in the field. For example, DW is giving technical assistance to *Nucleo Nacional de Recolher Pesquisa da Literatura Oral*, a national NGO providing microfinance services to refugees via a program funded by the United Nations refugee agency UNHCR.

And coming soon!

DW wants to teach better business management skills to its clients — a form of Business Development Service (BDS). This currently takes the form of chats and shared problem-solving within the solidarity groups. In the future, SLP will also involve BDS services catered to those who are receiving a higher loan.

Micro Notes

Informal market bigger than expected

A CURRENT MICROFINANCE BASELINE STUDY that DW is participating in, shows there are even more people than anticipated working in Angola's informal market. Although data from the field is still coming in, initial research results confirm the need for more and easier-to-access financial services.

In one province for example, research showed the principal deterrent to borrowing from

banks is the inability to pay back loans according to bank criteria plus lack of collateral. Alternative microfinance institutions such as NGO's often don't exist besides which people know little about them and think they are only for the 'rich'. Even traditional group-lending, Kixikila, is mainly practiced amongst salaried employees where a regular source of income inspires enough confidence and trust

to pool one's money. Friends and family remain the most common source for borrowing money.

The two-year study commissioned by the National Bank of Angola and financed by UNDP, wants to determine what changes are needed to improve financial services. Research is being conducted in Huambo, Bie, Luanda, Kwanza Sul, Zaire, Uige, Benguela and Huila. **DW**

It's all in the name.. One of the first items on the agenda for a newly formed micro credit client group is to choose a name. Unique and creative, a thread of hope runs through most, such as: **New Life, Peace is Good, Blessings, Liberty through Working, Good Path, Psalm 23, Prince of Success, Light, United to Triumph, Hope in God, Salvation of the Family, Generous, New Era, Happy, Love of God, Confidence, Hope and Life, Good Jesus, Key to Life, New Jerusalem, Joy, Future, Courage, United Family, and Beautiful Dream.**

DW's experience recognized

DEVELOPMENT WORKSHOP'S long-standing commitment to microfinance has been recognised and rewarded by the Angola Enterprise Programme (AEP), a \$4 million partnership between U.S. oil giant Chevron and the United Nations Development Programme (UNDP).

Under the three-year project, AEP will fund technical capacity-building to DW staff and assist DW as it pilots an individual lending scheme.

The training is designed to support DW as it takes the crucial step towards becoming a full-fledged, micro-finance institution able to stand on its own two feet. Individual lending, considered vital if the venture is to be commercially viable, would also expand KixiCredito's palette of banking services away from traditional solidarity group lending.

This is admirable praise indeed for DW's efforts in the microfinance field to date. DW was one of just two organisations – the other being Banco Sol – and the only NGO, to be chosen by AEP as a partner to benefit from technical assistance and training provided by ACCION International.

Ofelia Eugenio, AEP's coordinator, says "Microfinance in Angola is relatively new. We wanted to be sure we did it right by developing the capabilities of organisations like DW which have demonstrated seriousness in making microfinance sustainable.

"DW has a lot of experience and a lot of vision and is one of the few organisations which have significantly benefited a substantial number of people on a continuous basis." **DW**

Kixi partners



Partner Mary Tidlund in Huambo photo by R.Villanueva

Since 2002 when DW's first loan was released in Huambo, microfinance has taken off and today the province accounts for 27% of all KixiCredito clients. Partnering with USAID-EDDI (United States Agency for International Development- Education for Development and Democracy Initiative) from the start until June 2005, today 73% of Huambo's microfinance clients are women compared

to 63% in Luanda.

Canada's Mary A. Tidlund Charitable Foundation, with the Calgary Foundation and the Wild Rose Foundation, have helped fund the Huambo Microfinance Project since 2003.

In April a new KixiCredito office will be opened in Bailundo, thanks to funding from the World Bank through IRSEM (Instituto de Reinserção Social dos Ex-Militares). This year also DW-SLP will launch a 'post-conflict model of community-based entrepreneurship and good governance' project in both Huambo and Luanda, using funds from the Canadian International Development Agency. **DW**

HIV/AIDS a threat to microfinance

FAMILIES IN ANGOLA are increasingly vulnerable to HIV/AIDS and once affected, the disease can drive poor families even deeper into poverty. DW's microfinance program KixiCredito works with the poor to enable them to improve their livelihoods by access to credit, so while HIV/AIDS presents a real risk to the clients it can actually also put KixiCredito itself at risk.

Besides the traumas of illness, disability and death, HIV/AIDS inflicts immense financial pressure on affected families. The cost of medicines, care giving and funerals can stretch the finances of a family to the breaking point. When the person infected is the primary breadwinner, the results can be devastating. Affected families may have difficulty paying back loans, thereby damaging the financial position of the microfinance institution.

With an eye to the rising rates of HIV/AIDS in Angola, Development Workshop and the Mennonite Economic Development Associates (MEDA) partnered in October 2005 to study the effect that HIV/AIDS is having on the microfinance clients and the institution.

"The preliminary results give some cause for hope. So far the effect of HIV/AIDS is not being felt greatly by the clients or the institutions in Angola. But this is not an excuse for complacency. We know that Angola's rate of HIV/AIDS is rising, and the lessons of neighbouring countries should serve as a warning. Ignoring the crisis puts both the institution and clients in danger," said HIV/AIDS Research Associate, Ryan Utter.

KixiCredito has already started implementing training and insurance strategies targeting HIV/AIDS, and DW is creating an institutional HIV/AIDS Workplace Policy to protect its staff and reduce stigma and discrimination.

"By acknowledging HIV/AIDS as a problem before it undermines the goals of microfinance programs, microfinance institutions can continue to provide services," said Mr. Utter. **DW**

KixiCredito goes commercial

KixiCredito expects to have transformed itself from an NGO-supported project into a microfinance institution that runs independently commercially and gives personal loans, by the end of 2006. This giant step forward will be documented in a soon-to-be released publication by Luanda Urban Poverty Program which partnered with DW's microfinance program from 1999 to 2006. Showcasing success stories of micro credit as a poverty reduction tool, among the clients featured will be shop owner and beverage wholesaler Senhora Isabel João, who this year qualified for KixiCredito's biggest loan to date - \$5,000. Besides vendors, there will be success stories of furniture makers and a pot and pan manufacturer. **DW**



Extending credit, extending houses

Pilot project gives housing loans to Huambo microfinance clients

Microfinance is not just about giving credit for small enterprises. It can also involve insurance and even housing loans. In Huambo, DW and Habitat International have launched a pilot project to provide the poor with loans to repair, rebuild or extend their homes. With hundreds of thousands of Angolans returning and resettling after the war, the need for land and shelter has soared. But resettlement has been largely unassisted by the government, and in the absence of any organised planning strategy, returnees are crying out for land and cash so

that they can reconstruct their lives. "In Angola, as in any post-conflict country, the demand for housing is great," said Roland Villanueva, who has observed that many KixiCredito clients have used part of their business loans, and much of their business profits, on home improvements.

"Experience shows us that parts of the business loans tend to be used for asset-building, either a house or a store. That is true in 90 percent of cases, so why not give our clients a housing loan? That will solve a need while they can still use the other loan to focus on improving their business," he said.

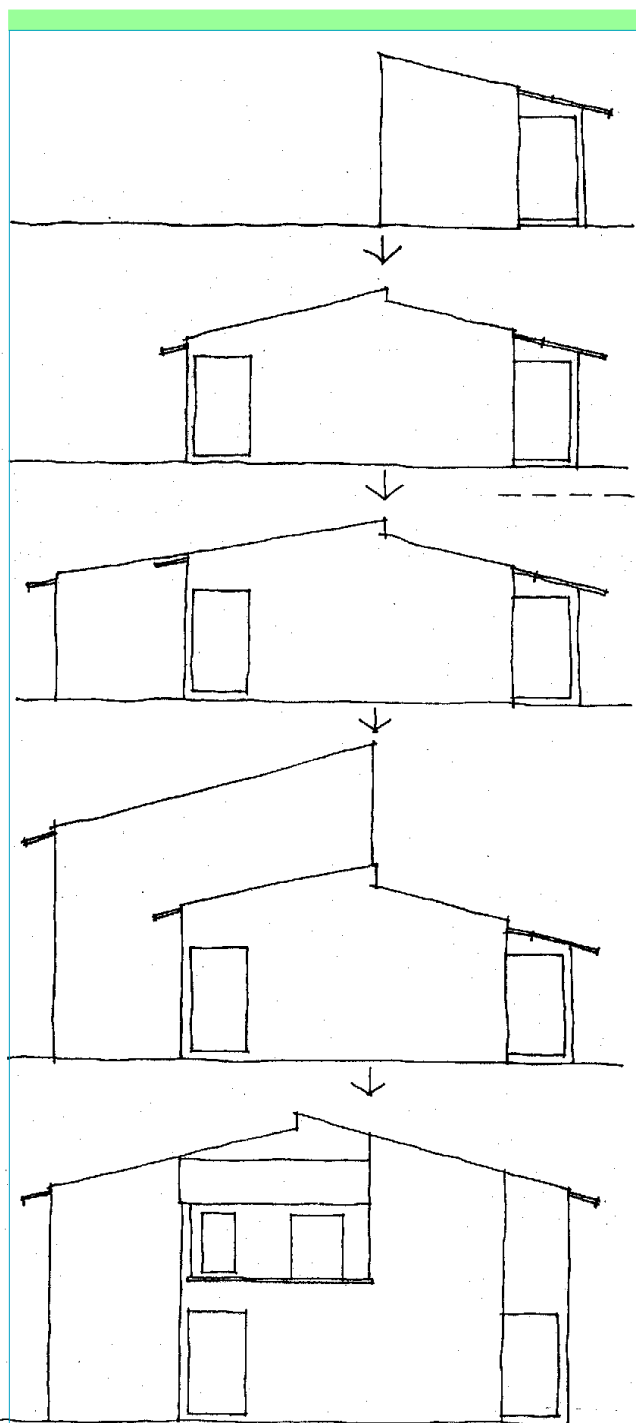
Building on the existing KixiCredito schemes, the pilot project is using **KixiCasa** as an additional incentive for KixiCredito clients who have achieved business success over a period of two or three years.

"At the moment, KixiCasa's priority is *graduate* groups and is designed to encourage them to perform well. Over a 10-month period clients can borrow up to \$1,200 to make home improvements or buy a house or some land, repaying the loan at a monthly rate of three percent," explained Mr. Emmanuel Isaias Chissingui, Huambo supervisor.

DW's director Allan Cain, who is also an architect/planner, explains that, "Housing improvement loans are small and incremental and are phased over a number of years. This method of building from a core house that can be extended and upgraded over time is the traditional way of building in Angola and in many other developing countries. Housing microfinance is therefore linked with family growth as well as evolving household economies. Housing microfinance is cheaper in the long run for the client and also reduces risks to KixiCredito since small loans over short periods are advised in an environment where land tenure rights are also unclear and formal long term mortgages unavailable to most people."

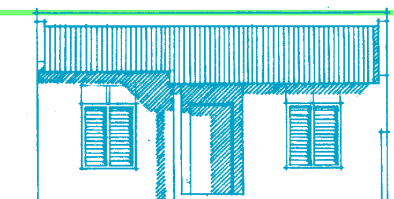
While the idea is new, and the capital available still small, DW harbours hopes that KixiCasa could become a profitable product in its own right.

"This may even become a major product of KixiCredito in the future because everyone needs housing. If we have the funds and if it is sustainable then we will open it up," Mr Villanueva said. **DW**



“ Building from a core house that can be extended and upgraded over time is the traditional way of building in Angola. ”

Are you
planning
to build
a house?



Available now at DW, free copies of details on how to build an *Upgradeable House*, left, designed by Allan Cain, Architect/Planner. Contact DW in Huambo or in Luanda.