

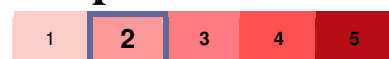
Socremo, Banco de Microfinanças, Mozambique

Socremo is a registered bank and as such offers a full range of financial services to microfinance and SME clients. Socremo is focused on serving as a driver towards the creation of assets and implementation of risk mitigation strategies among its clients, thereby contributing to the reduction of absolute poverty. As of March 2008, Socremo provided its credit services to 14,684 clients through a network of 10 branches (Baixa, Beira, Benfica, Chimoio, Inhambane, Matola, Maxixe, Xipamanine, Xiquelene, Xai-Xai).

Social Performance Rating

Rating

Incipient



Date of the rating

April 2008

Country Profile

Mozambique	1995-2005*
Demography	
Urban population	21
Life expectancy at birth	43
Education	
Adult literacy rate	39
Gender	
Women literacy rate	25
Poverty lines	
Below \$1 a day	36
Below \$2 a day	74
National	69
HDI	
Rank out of 177 countries	172
See 'socio-economic environment' section	
*Most recent data between 1995 and 2005	

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Rating Rationale

Socremo has the intention to contribute to the improvement of the socio-economic situation of its clients which should however be further formalized. The institution's social performance management system is however only incipient, which hinders its ability to efficiently and effectively translate this intention into practice.

Highlights

- Socremo intends to reach out to a very broad target clientele (SME to micro-enterprises and salaried people for the deposit services). Decisions on the target clientele or product offering are likely to be taken based on financial criteria.
- Socremo only operates in urban and peri-urban areas. It does not intend to reach out to rural areas but plans to increase the radius of its operations around urban branches.
- Socremo's banking status allows it to offer a wide range of financial services. It currently offers a broad range of credit services (productive loans for micro-enterprises or SME, consumption and housing loans for salaried people) as well as savings accounts, time deposits and basic transfer services. Payment services should be launched during the course of 2008.
- Socremo does not measure the social status of its clients and does not yet monitor their satisfaction with systematic client surveys. The newly created marketing department should take the lead in the development of such tools.
- Loan conditions are disclosed to clients but could be further explained to ensure that clients can more easily compare costs across institutions. Socremo, like other microfinance actors in Mozambique, does not yet communicate the effective interest rate of its loans, but plans to do so once its new MIS is set up.

K USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Mar. 2008
Social Performance Indicators (see also annexes)						
% of women borrowers	N/A	N/A	N/A	N/A	N/A	45.8%
% of rural borrowers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% of group loan borrowers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retention rate	N/A	N/A	N/A	N/A	N/A	N/A
PAR > 31	0.3%	0.4%	0.5%	0.9%	1.2%	2.5%
Portfolio Yield	80.5%	71.7%	69.5%	66.3%	62.7%	59.8%
Institutional Performance Indicators						
Loan portfolio	2,026	4,207	5,370	10,647	6,742	17,742
Outstanding deposits	N/A	60	805	1,619	7,287	9,852
Active borrowers	6,022	5,861	6,369	10,284	14,351	15,109
Active savers	N/A	N/A	3,182	9,284	26,526	31,708
Staff	102	100	136	256	337	331

Socio-economic environment

Mozambique remains a successful example of post-conflict transition, with impressive economic growth averaging 8% from 2000 to 2006 and sustained macroeconomic and political stability. Strong economic growth continues to be driven primarily by foreign-financed “mega-projects” and large aid inflows.

Mozambique has experienced in recent decades one of the most dramatic poverty reductions in the world. Based on a national poverty line, income poverty fell from 69.4% of the population in 1997 to 54.1% in 2003. Measures of the depth and severity of poverty declined even more. Nevertheless, Mozambique remains among the poorest countries in the world. Moreover, the country’s poverty reduction efforts have had uneven results across regions. In particular, poverty rates increased in Maputo city and province. Moreover, a recent report by the World Bank provides evidence of a “nutritional paradox”: while real consumption levels have risen across the country, chronic malnutrition has not declined apace, and has even worsened in some areas (Zambezia, Sofala, Inhambane, Gaza, Maputo province). Household survey data that would allow for poverty rates since 2003 to be updated are not available. But a poverty and vulnerability survey (PVS) carried out by the Universidade Eduardo Mondlane in 2006 and analyzed by the World Bank suggests that poverty reduction may be slowing and that inequality is an increasing problem. Some 40% of poor households surveyed by the PVS reported that their level of income – low to begin with – had remained the same or deteriorated over the previous five years. Rising national income is apparently not leading to an across-the-board alleviation of poverty, particularly in rural areas where more than 60% of Mozambicans live. In short, the gains from growth are apparently not reaching many of the poor.

During the first half of 2007, primary level school enrollment reached 94.1% of school-age children, according to national sources. For girls the rate was 90.9%. Although the government’s commitments and strong donor support aimed at reaching the Millennium Development Goals have led to a significant expansion of enrollment in primary education, this has taken place at the expense of quality and of the development of post-primary education.

Recently published results of a 2004/2005 labour force survey assess the levels and trends of unemployment, underemployment and earnings. Using a definition that counts occasional workers, idle self-employed and family workers as unemployed, the unemployment rate rises to 12.9% in rural regions and 31% in urban regions. Underemployment also affects genders disproportionately;

the index for unemployment is 18.6% for men and 8.3% for women. In Mozambique 75% of the labour force operates in the informal sector. Another 17% are unemployed, with only 8% having jobs in the formal labour market. Unemployment adversely affects rural areas, where 87% of workers are informal, compared with only 50% of urban workers. Regionally, Maputo city leads in formal employment, with 33% of workers in the formal sector, but with even more – 40% – unemployed. Of informal-sector workers 90% are in agriculture, with only 2% in manufacturing and construction, 5% in trade and tourism, and 2% in other services.

The government is taking steps to stem the effects of malaria, the deadliest disease in Mozambique. Between 2004 and 2007, 2.23 million mosquito nets were distributed, reaching 54.6% of children under five and pregnant women. Nevertheless, according to the latest joint review of the Mozambican government and donors, the country has registered an increase of maternal mortality by 38.7%. The incidence of HIV/AIDS in Mozambique was estimated at a very high 16.2% of the adult population in 2004, and the Ministry of Health estimates that the national rate has changed little since that time. According to a report presented to the parliament in March 2007, just over 50 000 HIV-positive Mozambicans were receiving anti-retroviral therapy (ART), well short of the 300,000 in need of treatment. The cost of ART in Mozambique is estimated at USD 140 per patient per year.

Mozambique, perennially vulnerable to natural disasters, was hit both by flooding of the Zambezi River and by cyclone Favio in early 2007. A July 2007 assessment by the Mozambican authorities of the effects of these disasters on food security found that 520,000 people faced high levels of food insecurity and an additional 140,000 were at risk. The government and donors funded relief and reconstruction, to continue at least until the end of March 2008. Again in 2008, heavy rainfall at the beginning of the year resulted in flooding of a large portion of central Mozambique. Some 76,000 people were displaced and up to 1 million were adversely affected by the floods, including lack of accessibility to roads and growing levels of water-borne diseases.

Source: African Economic Outlook; © AfDB/OECD; 2008; Planet Rating complies with the OECD rules regarding reproduction of OECD materials.

Socio-economic indicators	Year	Mozambique	Sub-Saharan Africa
HDI	2005	0.38	0.49
Rank out of 177 countries		172	
Demography			
Total population (millions)	2005	21	722.7
Urban population (% pop.)	2005e	35	..
Total fertility rate (birth per women)	2000-05f	5.5	5.5
Life expectancy at birth	2005	43	50
Health & Nutrition			
Under 5 mortality rate (per 1,000)	2005	145	172
Underweight children < 5 (%)	1996-2005c	24	..
Population undernourished (% pop.)	2002-04a	44	32
Access to safe water (% pop.)	2004	43	55
Education			
Adult literacy rate (% of people ages 15 and above)	1995-2005b	39	60
School enrolment ratio (%)[2]	2005	53	50
Gender			
Women literacy rate	2005h	25	..
School enrolment ratio (%) (female)	2005c	48	..
Poverty and inequality			
Below \$1 a day (% pop)	1990-2005c	36	..
Below \$2 a day (% pop)	1990-2005c	74	..
National poverty line (% pop)	1990-2004c	69	..
GNI per capita (current US\$)	2,005	335	845
Gini index	g	47	..
Environment			
Forest area (% of land area)	2005	25	27
Arable land (% of land area)		-	-
Economy			
Total debt service (% of exports of goods, services and income)	2005	4	..
Cellular subscribers (per 1,000 people)	2005b	62	130
Agriculture (% GDP)	2006	22	..
Industry (% GDP)	2006	29	..
Service (% GDP)	2006	49	..

Source: UNDP, Human Development indicators database

Microfinance Outreach and Offering

Despite a dramatic increase in the number of clients served by microfinance institutions over the last decade (from 9,000 clients in 1998 to more than 90,000 in 2008), the Mozambican microfinance sector remains largely underdeveloped, and only reaches a very small portion of the population.

The supply of microfinance services is largely concentrated in the Maputo/Matola area, which accounted for 56% of all borrowers in 2005, consistent with the concentration of informal trade and services activities in this area (40 to 45%). The service offering is reasonably developed in secondary towns like Inhambane, Beira, Chimoio or Nampula, where at least three to four microfinance service providers operate. Rural areas remain largely under-served: several MFIs or programs serve either exclusively or partly in rural areas but rural borrowers only represented 12% of the sector's client base as of 2005. Women represent roughly half of the client base. Outreach to women is very different from one region to another depending on the cultural and socio-economic environment and the important efforts of promotion of the services to women that has been conducted in certain areas.

The largest microfinance service providers are fully registered banks (ProCredito and Socremo) and offer a broad range of financial services to the upper segment of the microfinance market with loans either for micro-enterprises, SME or salaried people that usually require the a guarantee. These institutions also provide or will provide in the near future savings accounts, time deposits, payment services, transfers and insurance. Despite relatively small minimum loan sizes (100 USD), loans from these two institutions typically range from 500 to 1,000 USD for microcredit loans and go up to several tens of thousands of dollars for SME loans. Most of the other important service providers (Tchuma, BOM, CCCP-COM, FDM, FCC) focus on a lower segment of the market and offer either individual loans, solidarity loans or village banking loans that typically range from 200 to 500 USD (40 to 100% of the GDP per capita). Tchuma and BOM also offer formal savings service while some others promote the development of savings and credit associations. In line with the slow development of services in rural areas, the portfolio of agricultural loans remains small. Innovations are however being piloted to increase outreach to remote areas.

Interest rates levels usually stand between 3 and 5% per month and are either calculated on a flat or a declining basis which result in a wide range of effective interest rates (from 40% to more than 100%). Transparency on the cost of the

loans is not imposed by law and effective interest rates are usually not communicated to the clients.

In order to better serve the financial needs of the population, the Mozambican microfinance sector needs to address major challenges that include 1) the increase of the outreach to rural areas in a context of poor communication and transport infrastructure; 2) better coordination and information exchange between actors in the context of an increasing cross-indebtedness in certain urban areas, 3) the adaptation of the loan schemes to the needs of clients with HIV/AIDS, specifically prevalent in certain regions.

Source: Microfinance in Mozambique: Achievements, Prospects and Challenges, a report by the Mozambique Microfinance facility prepared by Fion de Vletter; 2006.

www.undp.org/mz/en/publications/publications/microfinance_in_mozambique

Institutional Presentation

Social Mission

Socremo intends to be a microfinance bank offering a full range of banking products to clients in the market for microfinance and SME services. Socremo's mission is to be a visible driver towards the creation of assets and the implementation of risk mitigation strategies among its clients, contributing to the reduction of absolute poverty.

Characteristics of Outreach

SOCREMO essentially operates in urban and peri-urban areas of the major cities of Mozambique. SOCREMO does not intend to reach out to rural areas but plans to increase the radius of operations around its urban branches with the help of PDAs and mobile banking. It also plans to open satellite branches where payments and deposit-taking operations could be conducted.

SOCREMO does not have the intention to reach out to particularly poor people. Rather, it has the clear intention to provide services to individuals or enterprises that are currently poorly served by the traditional banking system.

The proportion of Socremo's clients living below the national poverty line is likely to be low.

- Socremo does not have the goal to reach out to specifically poor segments of the population and its credit products are not designed to be adapted to their needs.

- The areas where Socremo mainly operates (Maputo city and region, Beira city) have a better socio-economic situation than the rest of the country¹.

Poverty indicators were however not available to validate/invalidate these assumptions.

Products and Services

As of April 2008, Socremo offers four individual loan products, the main products being Micro and SME Loans that represent 45% and 39% of the portfolio, respectively. Micro Loans are provided for amounts that range from 30,000 MZN (1,263 USD) to 300,000 MZN (12,632 USD) for periods of 3 to 24 months and bear an average effective interest of 62%. SME Loans start at 300,000 MZN and can theoretically go up to 5% of the capital (currently 5 M MZN or 210,000 USD). However, the largest loan disbursed as of December 2007 amounts to 4 million MZN (170,000 USD), or 3.5% of Socremo's capital and the average SME loan size is 660,000 MZN (27,789 USD). Interest rates vary according to the amount and the collateral, with lower interest rates for larger loans. The average effective interest rate of larger loans is 40%. Consumer Loans and Housing Improvement Loans are offered to wage earners since May 2006, but their development has been reduced due to the anticipated risks of over-indebtedness of this client segment. The weighted effective interest rate as of April 2008 was 55%.

Socremo offers five savings products:

- Current accounts in local and foreign currency.
- Savings accounts in local and foreign currency, bearing interest rates of 5% to 15% (in MZN).
- Fixed term accounts in local currency, bearing interest rates of 6% to 17% (in MZN) for 3 to 12 month-deposits. The highest interest rate on these term deposit has been increased from 13% to 17% in October 2007 in order to boost the deposit collection. This positions Socremo among the highest yields in the market along with ProCredito, which can offer up to 20% yields for very large amounts.
- Deposit plans for children or for adults: long term deposit plans (10 years or more) bearing 10% interest rates. Interest rates can increase to 15% if the client commits to deposit a fixed amount on a monthly basis.

¹ Monthly income per household in Maputo city was estimated to be 2.5 times higher than the Mozambican average based on a 2002/3 household survey.

Social Performance Rating

■ Institutionalization of the Social Mission

Social Performance and Strategy

Socremo is currently undergoing major governance changes that have led to a reinterpretation of the strategy and positioning of the institution. Socremo's mission remains the provision of all necessary financial services to low- and middle-income active Mozambicans, but with a strong development of the SME business line. Socremo's General Manager has the clear vision of developing an institution that will foster the socio-economic development of Mozambique by contributing to the strengthening or creation of the middle class. The planned development of the SME loan is consistent with that vision and seems compatible with the general goals of the probable new shareholder (whose goal is to build better infrastructure for the economic development of Africa, in which SMEs have a great role to play).

This nascent social mission is to be further formalized, refined and communicated as the governance structure stabilizes and the institution can resume normal management.

Social Performance Monitoring

There are no real social performance indicators in place. Socremo however has an important data mining potential given the quality of data entered in the loan files. The creation of a marketing department will increase the capacity to conduct or commission market surveys in the future. MIS challenges (see GIRAFE report, section "Information") however limit in the short run Socremo's capacity to create new social performance monitoring tools.

Africap, one of Socremo's shareholder, is working on the implementation of a social performance reporting system that might speed up the implementation of basic social performance reporting at Socremo.

Staff Mobilization

The revised social mission and vision is too nascent to have been communicated to staff that currently are essentially mobilized towards growth and portfolio quality (through communication and bonus schemes). A stronger corporate culture needs to be created to ensure a good mobilization of staff towards the achievement of the social mission.

■ Targeting and Service Offering

Breadth of Outreach

Current outreach is modest when compared to the total population of Mozambique (0.1% of the population). Given the large untapped market and Socremo's license to operate as a regulated institution, the institution has the potential (and the goal) to reach out to a significant portion of the Mozambican population.

Client Targeting

Socremo intends to reach out to a very broad target clientele (SME to micro-enterprises and salaried people for the deposit services). Decisions on the target clientele or product offering are likely to be taken based on financial criteria.

Service Design and Client Satisfaction

Socremo provides a diversified range of services (loans, savings, and soon, other financial services) and sees the promotion of the use of savings services as an important part of its social mission. Its loan products are already pretty flexible in terms of amounts and terms (although flexibility is limited by the MIS) and loan officers are sufficiently trained to provide a good assessment of the clients' repayment capacity and adapt the loan characteristic to the client's needs. Some LOs however seem to base the loan on the value of the collateral provided.

Guarantee requirements do exclude a significant proportion of the population from the institution's services even if Socremo accepts movable properties (furniture, TV sets, etc.) as collateral.

Marketing services are being developed that will allow to better understand client's needs. Currently, only limited data is available to analyze the client behavior and satisfaction (one recent client survey).

Cost of the Services

Effective interest rates are above international benchmarks for microfinance even if they are within the range of rates offered in Mozambique. There is a clear desire to lower interest rates to be more competitive and provide better services to the clients. This should be possible in the short to medium term since Socremo has room to improve its efficiency (low staff productivity, potential for more economies of scale, expensive international technical assistance in the past).

■ Social Responsibility

Client Protection

Transparency on the loan conditions is basic with the provision of clear repayment schedules. The documents and conditions could be further explained to ensure clients can more easily compare the cost of loans across institutions. Socremo, like other microfinance actors in Mozambique, indeed does not yet communicate the effective interest rate of its loans, but plans to do so once its new MIS is set up.

Socremo makes an appropriate use of the credit bureau to limit the risk of over-indebtedness. No insurance is however yet offered to client to cover debt in case of death or invalidity.

Collection mechanisms can tend to be oppressive given the pressure that is put on LOs to maintain a very low “PAR-1 day”. Because of the weaknesses of the Mozambican legal system, Socremo makes use of “informal” agreements with clients to seize their property in case of non-repayment. The procedures related to this practice are formalized in the manuals. There however is a risk that LO might behave in an inappropriate way with clients during these actions and that is not sufficiently monitored. Client’s contacts with the institution are concentrated on the loan officer which limits the capacity of clients to complain in case of LO misbehavior.

Human Resources Policy

Human resources policies are designed to guarantee equal rights to all staff (fair hiring practices, evaluations and trainings provided for the development of skills and employability; definition of career paths). Compensation packages (salary and social security) are fair compared to Mozambican standards. The remuneration and incentive systems are transparent even if not clear to all staff. Employees are however not yet involved in the decision-making regarding issues that are related to their working conditions.

Social Responsibility to the Community

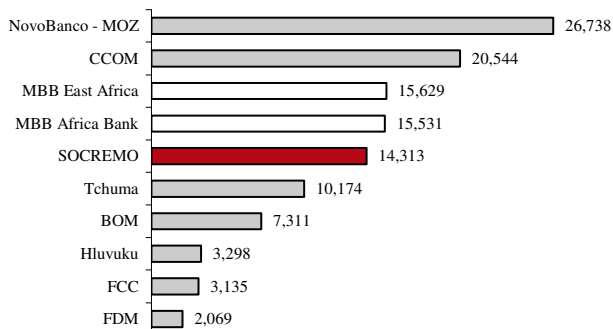
Even if Socremo has the intention to be a socially responsible actor in its market and community, the institution does not have specific policies to fight against corruption or provide information to clients about their general rights. Socremo however grants support to charities or local associations. The causes that are supported are chosen by a Social Responsibility Committee of the Board that however does not meet on a very regular basis.

Social Responsibility to the Environment

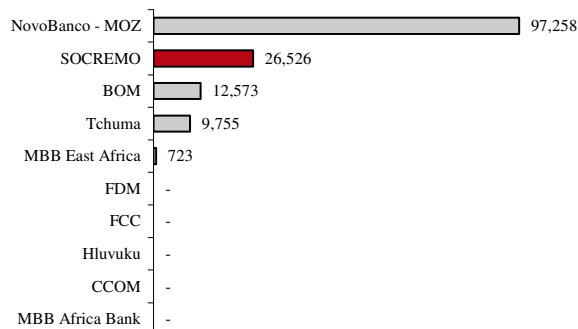
Socremo does not have any specific policies related to the impact of its activities on the environment.

Benchmarking

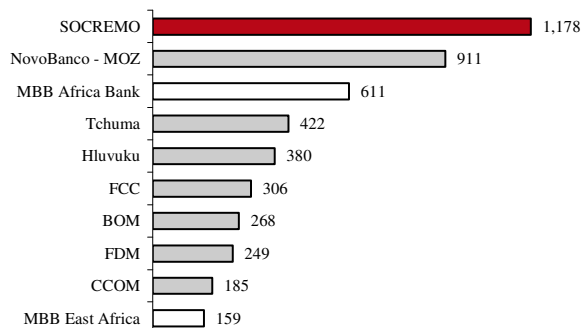
Active borrowers



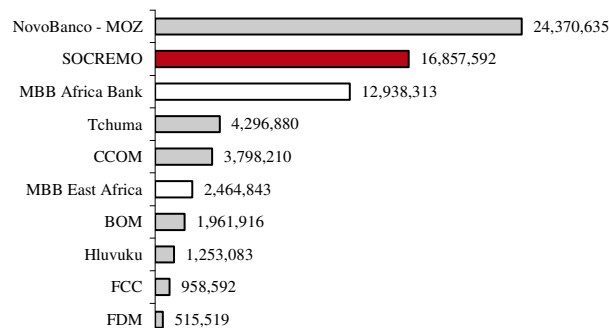
Active savers



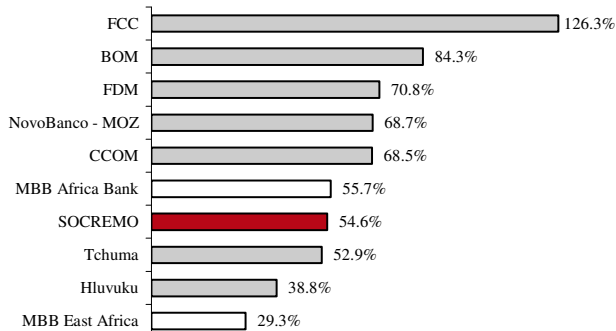
Average outstanding loan per client



Outstanding deposits

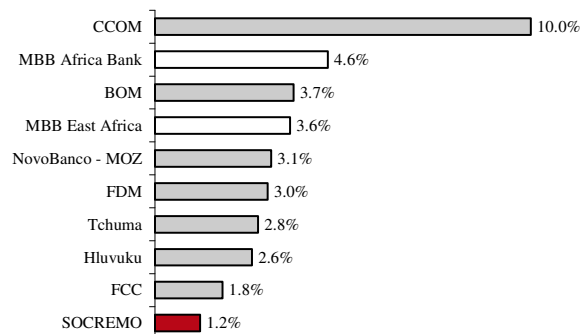


Portfolio Yield



Source: Microfinance Association for Outstanding loan portfolio, active client, outstanding deposits, active savers, PAR (2007); MixMarket (Portfolio Yield; 2006)

PAR 31-365



■ Performance indicators

Social performance indicators currently being tested by the social performance taskforce and MixMarket for social performance reporting

Composition of the clientele	Apr. 2008
% of women borrowers	45.8%
% of women savers	?
% of rural borrowers	0.0%
% of rural savers	?
% of socially marginalized or excluded groups	?
New clients	
% Below the national poverty line	?
% Below 50% below the national poverty line	?
% Earning less than 1 USD a day per household member	?
% Earning less than 2 USD a day per household member	?
% Poor or low income	?
Active borrowers	
% Below the national poverty line	?
% Below 50% below the national poverty line	?
% Earning less than 1 USD a day per household member	?
% Earning less than 2 USD a day per household member	?
% Poor or low income	?
Active savers	
% Below the national poverty line	?
% Below 50% below the national poverty line	?
% Earning less than 1 USD a day per household member	?
% Earning less than 2 USD a day per household member	?
% Poor or low income	?
School enrollment	
% School enrollment of clients children	-
% primary school age girls	
% primary school age boys	
% secondary school age girls	
% secondary school age boys	
Appropriateness of services	
PAR 31-365	2.5%
PAR > 365	0.0%
Retention rate *	na
Achievement of change (3-year or 5-year clients)	
% of clients who witnessed a positive change in their social status	?
% who have moved above the relevant poverty line	
% still below the relevant poverty line	
# of full-time hired and salaried employees in enterprises supported during the year	
# of part-time hired and salaried employees in enterprises supported during the year	
# of hired and salaried seasonal employees in enterprises supported during the year	
Human Resources policy	
% of women among your professional staff	46.5%
% of women among management	28.6%
% of employees who received at least two days of training during the period (does not include new hire training)	50.8%
Max to Min LOs salary ratio	3
Max to Min professional staff salary ratio	27
Life&health insurance expense / personal expense	?

Africap reporting	April. 2008
Active borrowers	15,109
Active savers	31,708
Active clients	31,708
Type of services provided	
<i>Business Loans</i>	YES
<i>Consumer Loans</i>	YES
<i>Housing Loans</i>	YES
<i>Savings-Passbook</i>	YES
<i>Savings-Time Deposit</i>	YES
<i>Money Transfers</i>	INTERNAL
<i>Leasing</i>	NO
<i>Insurance</i>	NO
Average amount of loan disbursed per borrower / GNI	309.2%
Average size of new loans / GNI	na
Average outstanding deposits per saver / GNI	63.4%
Number of branches	10
% of rural clients	0.0%
Borrowers retention	na
% female clients	45.8%
Profit margin	10.5%
PAR > 30 days	2.5%
Average effective interest rate	59.8%

■ Formulas

- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Cost of savings ratio: Interest and fees paid on deposits/Average deposits
- Cost of borrowings ratio: Interest and fees paid on borrowings/Average borrowing
- Retention rate: end borrowers / (beg. borrowers + new borrowers)

■ Rating scale

Rating	Definition
5	Advanced: Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact
4	Convincing: Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact;
3	In progress: Clear intent to reach social goals; social performance management systems being implemented
2	Incipient: Clear intent to reach social goals; low capacity to manage social performance
1	Intangible: Intention to reach social goals is non tangible; low level of management of social performance