THE IMPACT OF SOCIAL CAPITAL ON MICROFINANCE ACTIVITY DURING AND AFTER CIVIL CONFLICT IN RURAL MOZAMBIQUE

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Abstract:

In the following analysis, my goal is to examine whether the civil war in Mozambique had an impact on conflict and post-conflict microfinance with social capital as an explanatory variable. My findings suggest that the war did impact microfinance initiatives during and after war- and much of this impact is related to social capital. My finding that informal microfinance is the most popular means of microfinance in rural areas of Mozambique suggests that cohesive communities require high levels of social capital in order to carry out business with family, neighbors or community-members. Strong ties are essential in rural Mozambique, particularly because rural communities are dispersed from each other and are based on kinship arrangements. Without trust and cooperation of one's family, friends and neighbors, few income-generating activities would succeed in a post-conflict rural environment.

I dedicate this research to my family

and fellow classmates that have supported me through

my academic journey and made it all the more pleasant.

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The difference between what we do and what we are capable of doing would suffice to solve most of the world's problems. ~**Mohandas Gandhi**

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CH 1- Introduction

In today's vastly modernizing world, many countries, especially those located on the African continent, still face challenges of fundamental development in social, economic and political spheres due to various path dependencies of historical experience- namely colonialism and civil war. In the following research analysis, I will examine the impact of civil war on microfinance activities in post-colonial, rural Mozambique and answer some important questions concerning the nature of development after the civil war.

My main objective is to find out how the civil war affected the rural poor and their tendency to participate in microfinance initiatives in the post-war transition period. In the case of examining civil war's impact on microfinance, I would like to further explore the main obstacles to microfinance initiatives for the Mozambican rural poor in the post-conflict period and whether social capital is the explanatory variable for post-conflict microfinance. Civil war has profound effects on all aspects of society. In Mozambique's case and in many other cases, population shifts and migration change the social landscape of villages and cities. How these movements impact post-conflict society in terms of "rebuilding" and "development" is one important aspect of the effects of civil conflict that this research will investigate. In terms of economic activities, conflict stagnates and corrupts institutions and at the same time creates a large informal sector that flourishes to sustain the livelihoods of people on a micro-level.

The reasoning behind this is that war causes collapse of the formal financial system, and consequently, reliance on informal mechanisms becomes a coping strategy (Aron, 2002: 7). Rural way of life and participation in informal activity is a linked experience. How war impacts informal activity during and after conflict will also be telling of the changes present in social capital. The relationship between social capital and informal economic activity has, what I would describe, a causal relationship where increase in social capital generates higher informal activity and decrease, lower activity.

In order to contextualize microfinance initiatives in the post-conflict environment, I will examine the changes the Mozambican society experienced during the war and how these changes can tell us more about the supply and demand of microfinance activities as the main means of community development in rural areas. The reason why I would like to concentrate on the demand aspect particularly is because demand can be more foretelling of individuals' desire to establish entrepreneurial projects, which is a social mirror of the presence of high levels of trust and social capital. Supply satisfies demand and contributes to the overall presence of microfinance projects. Although social capital will be the focus of my analysis, understanding the role of supply will only cement the validity of the social capital/microfinance link by providing quantitative evidence of the relationship (that the demand is met by supply).

Most formal socioeconomic sectors are located in urban areas, so the rural areas take advantage of the sectors that are accessible and that are easily navigated by the illiterate and the poor. Microfinance allocates financial responsibilities to self-management and grants power to individuals to ensure the quality of their future. In the following section, I will examine the theory and practice of microfinance so as to understand its role in helping the poor generate income, especially when they lack labor access to the formal sector or are disconnected from the benefits of domestic economic growth.

The reason why I chose to examine microfinance in rural areas is because majority of the population of developing countries is located in rural areas and live in poverty. If sustainability is the main precondition of successful development initiatives, microfinance offers a means for the poor to help themselves. There is a significant link between poverty and conflict (Fraser and Candido, 2001: 4). In examining how conflict impacts microfinance, I desire to shed light on the case of Mozambique- a country that experienced very little stability after gaining independence from Portugal in 1975. In this context, not only did the post-conflict environment signify the identity-building of the Mozambican nation, but it also proved to be a starting-point of real development capacity that the country had not experienced beforehand. Generally, the poor are usually the last to see the benefits of economic growth, and what it comes down to in terms of the significance of this research is how empowering the poor through sustainable means (microfinance) can ensure that they would take the torch as the source of hope for the socioeconomic future of the developing world.

1.1 Structure of the Research and Variables Tested

1.1.1. The How?

The research will focus on the analysis of the impact of civil war (independent variable) on microfinance (dependent variable) in Mozambique. It is important to clarify that civil war disrupts and changes many of the traditional spheres of society, and the spheres it most impacts in terms of financial behavior of the rural poor will illuminate a lot about the pattern of microfinance after war. These factors of change will act as the explanatory variables. After researching conflict literature, I chose social capital as the most telling explanatory variable, since the weakening of social capital leads to decrease in trust, exclusion and fewer trading or business options. I am aware that many other factors contribute to the post-conflict socioeconomic landscape, but given that I suspect social capital to be of the most importance, I will concentrate on exploring its impact, which I feel will be of greatest importance and relevance to this particular analysis.

In the light of the civil war and its impact on Mozambican society, history and culture of the nation play important roles in explaining the causality of how “initial circumstances” morph into “consequent circumstances” due to civil conflict. To what extent this change takes places is also marked by time. The conflict in Mozambique lasted seventeen years, and during this prolonged period, it is safe to say that a generation grew up with all the effects, burdens and coping-mechanisms of the turbulent environment. Undoubtedly, the effect of the civil war on Mozambique is profound.

1.1.2. The Why?

Notwithstanding the length of the Mozambican conflict as advantageous in measuring the “impact” value on social capital and microfinance, the reason behind the choice of Mozambique for the research of post-conflict microfinance is more complex. For one, Mozambique is one of the most impoverished countries in the world and its geographic location in Sub-Saharan Africa next to other impoverished countries that underwent similar path-dependencies of colonialism and war is telling of the type of development initiatives that exist and that could be key in enforcing sustainability of development in this region of the world. Secondly, Mozambique is a country rich in natural resources, and if these resources were used to enrich its population by fair distribution, Mozambique could have potentially become a well-off nation. But sadly, this is not the case. Thirdly, before 1992, Mozambique had a blurry sense of an independent national character. It was colonized by the Portuguese until 1975, and by 1977, multiple factions were fighting for control over the country. The country never had time to build its own institutions before 1992, and the legacy of colonial institutions further marginalized the non-elite rural communities that have been largely neglected during the colonial era. Fraser and Candido affirm this claim with their own reasoning behind the choice of Mozambique for their research of post-conflict microfinance: “…Mozambique is often heralded as one of Africa’s economic success stories. However, amidst the recent enthusiasm for economic growth, it is possible to forget that

Mozambique remains one of the poorest and most aid-dependent countries in the world (2001: 24).” Lastly, microfinance was just emerging as Mozambique plunged into civil war in the 1970s, and because of the war, formal microfinance activity was unable to thrive. The lack of institutional capacity to support microfinance during the war explains the scarcity of microfinance activity at the time but does not address the extent of informal lending and borrowing activities that took place in rural communities at this time. And since rural communities largely depend on informal microfinance due to accessibility and reliance, social capital, rather than the capacity of formal institutional framework is more telling of the demand and prevalence of microfinance activities in rural areas.

CH 2- RESEARCH METHODOLOGY

In order to gather information that can shed light on the main research topic, both secondary field-research data of the case study- microfinance in Mozambique- and the theoretical analysis of the findings should work in unison in order to discern "why" and "how" conflict affects the demand and supply of microfinance. Given the time-consumption of qualitative research (Fraser & Candido, 2001: 15), the scope of the factors that are to be examined and resource scarcity, I was unable to conduct personal field-research in Mozambique. Given these limitations, I will use data collected by Fraser and Candido in their 2001 field research of microfinance activities in Mozambique ("Research Study of Post-Conflict Mozambique") as my primary source. The duo's field study includes all the necessary information I will need for my analysis of the affect of social capital on the conflict and post-conflict microfinance activities.

In addition, two other main sources will shed light on the fundamental understanding of microfinance during and after conflict. They are Doyle's 1998 research entitled "Microfinance in the Wake of Conflict: Challenges and Opportunities," and Wilson's 2002 research "Microfinance During and After Conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda." Wilson's publication is very important for my research in two ways. First, it explores the topic of interest (microfinance) in countries that have undergone a similar transforming phenomenon (civil war) and in the same geographical setting of Sub-Saharan Africa. Secondly, given these structural similarities, comparison and contrast between the countries can shed light on the internal elements that make each country's microfinance initiatives similar or different.

The main types of secondary data that I will use will be the collected timelines, semi-structured interviews, and data analysis of collected data. Although the main studies I will use concentrate on conflict and post-conflict microfinance, my own argument will use the findings to build on my original interpretation of the conflict/microfinance link to include the role of social capital and to concentrate mainly on the rural areas of Mozambique. Various secondary findings on social capital will be used and applied to the case of Mozambique and understanding of the rural social structure in the country will serve as the basis for developing an original interpretation of the pattern of supply and demand of microfinance when it comes to servicing the majority of rural poor.

My other secondary sources will include theoretical and empirical works on microfinance, civil war and social capital. In terms of extensively covering theoretical concepts, I feel that it will be an important component of research that not only serves to fill in the gaps of collected data that may lack comprehensive cohesion, but to also contextualize the implications of research answers to the broader knowledge and understanding of the general field and related sub-fields. That is precisely why field-work data will not give us all the answers, and why we must look to theory to bridge the gaps in understanding.

In order to minimize bias of the information used, I will include various sources for each one factor I explore, and, at the same time, include various available perspectives prevalent for those factors. For example, there is rich literature available about microfinance, but most of it is divided between the camp that praises its success in the third world and one that views it as a flawed system that fails to live up to its premise of poverty-relief. Since consensus is usually hard to come by for most qualitative information, I will fairly include the pro and con voices of the debate and include other supportive arguments that are relevant to the analysis.

CH 3: THE ROLE OF MICROFINANCE IN RURAL MOZAMBIQUE

By the early 1990s, markets and banks were starting to liberalize in Mozambique and investment- especially after the conflict- increased macro-economic growth substantially in the years following the conflict (Hanlon, 2004: 751). Although aid did account for a substantial fraction of the GDP, foreign investment into emerging mining, oil, gas, power and transport industries brought momentum to the self-management of Mozambique's economy (Ford, 2010: 68). Mining, the current most profitable export market in Mozambique, is expected to generate enough growth to benefit and improve the country's infrastructure (Ford, 2010: 70).

In the light of the future growth prospects and present acclamation as Africa's success story (Ford: 2010), Mozambique is still heavily dependent on foreign assistance and has a high corruption ranking that render it one of the most corrupt nations in the world. Although improvements in all sectors of society have been steadily increasing since the end of the conflict, the majority of the population is still below the poverty line and subsistence agriculture continues to dominate the country's workforce (Economic Overview, 2009: 55-56). For all the propensity for development, the high poverty rates show that there is a gap of resource distribution to the two thirds of the population made up of the rural poor. How microfinance plays a role in this "abandonment" by the formal agents of development will be illustrated by the "coping mechanisms" of the rural poor.

Since the 1970s, literature on microfinance has been both laudatory and critical towards the role of microfinance in reducing poverty. Although microfinance activities are present all over the world, they are mostly implemented in countries where formal, financial institutions are incapable of reaching the marginal sectors of the population- mostly the rural, the poor and female. The agenda of microfinance is clear- to help marginalized groups create income through the marketing of their native skills in a manner that is both profitable and sustainable. Overall, the main premise of microfinance is the creation of an entrepreneurial expansion that will reduce poverty long-term through sustainable means.

The most prevalent instruments of microfinance are micro-credit and micro-lending, which provide small loans to individuals or groups for expanding business (Khavul, 2010: 58). Microfinance institutions can be informal, semi-formal or formal and operate according to the rules that dictate loan repayment and the selection of dependable borrowers for the loan; they also differ in the agenda- profiting or philanthropic- and the relationships between lenders and borrowers. Informal microfinance institutions are created by people themselves without any outside intervention and have no legal status (Fraser & Candido, 2001: 9). Semi-formal microfinance institutions serve as an intermediary sector-such as NGOs- engendered to provide financial services to those excluded by the formal banking sector (2001: 10). The formal banking sector is a for-profit sector that includes the central and regional banks which distribute micro-loans on the basis of minimal risk and high reliability that loans will be repaid by borrowers. Therefore, the formal sector is highly averse to lending to the poor, since the poor carry high risk of non-repayment and consequent profit loss for the banks. There are numerous transaction costs that banks would undergo in order to service the poor; not only would they invest resources in distribution networks, but the non-trivial size of the loans the poor take in addition to the resources invested in monitoring procedures would create incentives for the banks not to conduct business with the poor (Khavul, 2010: 62).

Given the population composition of Mozambique, informal and semi-formal microfinance would likely be the most popular means of loan servicing in rural areas. This is due not only to the fact that the formal sector has few incentives to service the poor, but because the poor also do not have access to the formal sector. Although the objective of my research is to look at the prevalence of all microfinance activities in conflict and post-conflict rural Mozambique, knowledge that rural poor have access to and prefer informal microfinance initiatives over the formal and semi-formal type has prompted the direction of analysis to mainly focus on informal microfinance.

So what is the nature of informal microfinance initiatives? In *The Handbook on Development Policy and Management,* James Roth analyzes how informal microfinance arose as competition to the formal banks. He suggests that lending to the poor is usually a risky undertaking and that “lenders have incentives to lend to those who have good collateral (to minimize their risk) and that lenders also have motivation to distribute large loans (to reduce their distribution costs)” (2002: 176). Because this is the case, agricultural banks evolved in the 1970s to cater to the poor in the developing world. However, informal lending mechanisms arose as strong competition to other means of financing on the basis that they represented community ties and mutual trust:

> ROSCAs [rotating savings and credit association] exist in poor communities in most parts of the world…A group of people who know one another agree to save together on a regular basis. In each period a single person is given all the funds collected in that period. The ‘pot’ rotates each week and the scheme ends when each person has received a payout....Another variant of a ROSCA is an ASCRA, or accumulating savings and credit association. In this scheme the pot does not rotate but accumulates until some prearranged date, for example, the following Christmas. (Roth, 2002: 176)

In the ROSCA and ASCRA lending schemes, “solidarity groups” are formed within a community where each borrower becomes liable to the group if s/he fails to repay a debt. Along these lines, group members take care of themselves without outside intermediary threats and necessity of interest rate payments (Roth, 2002: 177). The negative aspects of ROSCAs and like village savings schemes is that they can be susceptible to collapse if the managers are corrupt or irresponsible or if the members are undisciplined (Robinson, 2001: 241). In this respect, strong trust and ties with other members in the community is necessary in order to navigate intra-personal or collective problems that may undermine the success of informal microfinance that relies on such close relationships as the basis of its function. The role of social ties and trust in conducting microfinance activities will be further explored in my subsequent overview of social capital.

The Grameen Bank, “The Bank for the Poor,” was founded by Muhammad Yunus on the premise of understanding how the poor are most likely to invest: in schemes based on mutual trust, from community-based institutions and in schemes based on minimal risk. However, Roth points to one drawback of group-based financing and even criticizes the presumptive assumptions that micro-finance works as a panacea for sustainable growth. He explains that there is a downside to the solidarity-group micro-finance institutions in that they are costly to run and that self-selection of groups can result in the exclusion of the most vulnerable people in the society. Further, he argues that the impact of microfinance is hard to measure. This is due to establishing the “counterfactual” of what would have happened in a community if microfinance projects were never initiated there. Due to these and other factors, it is difficult to empirically measure if micro-finance does lead to sustainable growth and poverty reduction (Roth, 2002: 177-179). In my analysis, I will avoid assumptive conclusions about the overall macro-economic impact of microfinance and will focus on the micro-level explanations of why microfinance activities persist in rural communities and how self-directed initiatives are an important means of income generation when communities are neglected by the trickle-down effect of their country’s growth.

Measuring the success of microfinance can be done through the analysis of available qualitative data that provides insight into “impact assessment” and includes sample surveys, rapid appraisal of focus groups and semi-conducted interviews, participant observation, case studies of specific units and participatory action. The rejection of the scientific method in impact assessment of microfinance is simple: the method ignores the complexity of the process and strives to measure the irrelevant and immeasurable (Hulme, 2000: 86). It is hence not surprising that assessing the “success” or “failure” of microfinance can prove to be a daunting task that relies on observational methods that bring to the table the biases, the various geographical contexts unique in their path dependencies, the selection of cases interviewed and other limitations that may be hard to control for due to inability to manipulate circumstances or know what would happen in their absence. That is why the verification of microfinance observations is next to impossible to achieve. In this respect, we can only look at the findings and despite the existing limitations of the qualitative method, judge accordingly about the patterns we perceive.

In some sense, it is possible to form speculations deductively from various observations. For example, in writing about “The Microfinance Promise” in the Journal of Economic Literature in 1999, Morduch makes some important conclusions about the impact of microfinance on low-income house-holds. On the subject of group lending in rural areas, he is very optimistic and finds that “through the ability of neighbors to enforce contracts and monitor each other- even when the bank can do neither- the group-ending contract again offers a way to lower equilibrium interest rates, raise expected utility, and raise expected repayment rates (Morduch, 1999: 1582).” In terms of social and economic impact, Morduch offers a comprehensive overview of self-employment and its effects on the traditional society. The following analysis can raise important questions about how microfinance can affect households in rural Mozambique:

> In principle, self-employment activities started due to microfinance participation can affect households in many ways (if, indeed, that is what households actually do with loans). First, there should be an income effect, pushing up consumption levels and, holding all else the same, increasing the demand for children, children’s education, and leisure. But there will also be

> effects on the value of time, yielding a variety of counterbalancing effects. With increased female employment, having more children becomes costlier, pushing fertility rates downward…On top of these forces, many programs directly advocate family planning and stress the importance of schooling, so participation may also bring shifts in attitudes, as well as shifts in the relative bargaining positions of husbands and wives. Thus, while consumptions and income levels ought to increase, it is not clear *a priori* what will happen to fertility, children's education, and leisure. (Morduch, 1999: 1597)

The fertility rates in Mozambique decreased from 6.6 in 1970 to 5 in 2009 (UNICEF). Whether the post-war socio-economic factors had anything to do with this decrease is up to speculation. By Mordoch's reasoning, if microfinance was a prevalent means of income generation in rural Mozambique, consumption and income levels would increase. And if microfinance did have an impact on fertility, the decrease in fertility rates since 1970 could suggest that microfinance had an effect on women's roles in the household. However, this hypothesis is beyond the scope of my research.

Although some may link the presence of war to declining fertility rates, there seems to be no consensus about this in the Sub-Saharan region. Conversely, one related study of Angola (which was also a Portuguese colony that likewise experienced civil war), finds no evidence that war had led to fertility decline but that higher education of women and higher standards of living may have facilitated this decreasing pattern (Agadjanian and Prata, 2001: 9-13). Given that many factors may contribute to fertility decline, it would be presumptive to attribute it singularly to war or microfinance. Rather, it would be interesting to find if microfinance participation does impact fertility rates, as such research would answer many questions raised here.

In terms of scope, I will not be able to compare microfinance initiatives between men and women. However, it is important to bring up women's role in microfinance and how the most progressive projects around the world aim at the empowerment of rural women. Research done by Sathiabama shows that economic empowerment of women through microfinance leads to greater socio-economic opportunities for women, including political representation, property rights, personal rights, social equality, family development, and community/national development (Sathiabama, 2010). Women benefit greatly from successful microfinance initiatives, but there are also reported cases of unsuccessful initiatives that may leave them worse off than men in a patriarchal society. There have been reports in India of women committing suicide when they were caught in a trap of microfinance debt, but Ashta et al. conclude that suicides in Andhra Pradesh region of India are not correlated with microfinance debt and that statistical analysis shows an insignificant relationship between the two variables (Ashta, 2011).

However, even if the negative effects of microfinance are not that extreme, Khavul does believe that the empowerment aims of microfinance on behalf of women may not necessarily occur in traditional environments where women often do not control the loans they take and even end up taking loans at the request of their husbands (2010: 66). In terms of intra-group discrimination among women, most findings on women in microfinance neglect to tackle this topic. I would suspect that in such instance where cohesive ties exist, competition and discrimination among women would be similar to that among men, depending on the rates of social capital endowment of each member. On the whole, like the nature of microfinance, the claim of women's empowerment through microfinance cannot be generalized and can only be examined on individual cases.

Feminization of microfinance is a ubiquitous topic in the field of microfinance, particularly because women are the majority of microfinance recipients today (Khavul, 2010: 63). Further research will prove very valuable in developing a greater understanding of women's roles in community development through microfinance. This is promising given that emerging literature on microfinance is highly feminized and the future of microfinance lies not only in the empowerment of the poor, but increasingly so in the entrepreneurial activities of rural women.

In terms of the functionality of microfinance initiatives, an inquiry into the benefits and limitations of informal credit networks operating in rural communities is important in order to understand informal microfinance patterns in rural Mozambique. Bhatt and Tang offer some limitations. They find that informal credit networks are limited by geography and by narrow kinship and friendship ties (2001: 1105). Further, inability to pay could humiliate an individual within a close community and could push the lender to take liberties and exert inhumane punishment towards the borrower (Bhatt and Tang, 2001: 1106).

Nevertheless, strong community ties do offer advantages. Morduch writes that group-lending initiatives provide incentives for homogenous groups to stick together, which is important for securing lower interest rates, improving repayment rates and raising social welfare (Morduch, 1999: 1580). Following this logic, Bhatt and Tang also recognize the benefits of group microfinance in providing financial and social services to self-employed poor individuals, but they argue that these programs are not an option for the very poor who require basic needs of survival (2001: 1117). They suggest that in terms of the working poor, it is essential to optimize group microfinance projects through policy reforms that are case-specific (as opposed to being applied in a blue-print fashion) and to establish grassroots economic vitalization strategies, among other initiatives (Morduch, 2001: 1119).

Institutions are altered by conflict and even more so by the length and the scale of the conflict (Aron, 2002), which was substantial in Mozambique. Aron suggests that conflicts may themselves create a need for new institutions and that post-conflict countries require institutional reform in order to secure peace (2002: 4). Mozambique's institutions were altered by conflict through corruption, elite overtake of donor funds and kleptocratic capture of the justice system (Hanlon, 2004: 758). In this environment, development of financial institutions could not occur, unless the informal sector has overwhelming resources to sustain the livelihood of the majority and navigate the dependence on the formal structures- which is usually never the case.

The need for well-functioning, informal financial institutions is therefore necessary if the majority of the Mozambican population cannot access formal institutions both due to the damaged transportation infrastructure in rural areas and the lack of personal incentives to get involved with a formal sector due to lack of education, lack of trust and uncertainty in the formal finance institutions. Formal microfinance, therefore, presents next to nonexistent options as a source of credit for the rural poor (Wilson, 2002: 80). Jorge, a Mozambican from Massingir, offers his sentiments on borrowing from the banks:

> "There is a bank in town but I never keep my money there. I think it is difficult if you didn't go to school. It's threatening. I heard that people are saving money in the banks but I think it's only for people who are saving a lot of money." (Wilson, 2002: 80)

Another main reason why so many Mozambicans are wary of the formal financial system is because there is a continuing disconnect between the formal economy and economic growth in rural areas. Many attribute this divide to the elite capture of the state and the economy that prevents most Mozambicans from benefiting from the system (Hanlon, 2004: 754). I would argue that the trust of the rural poor towards the formal institutions is accordingly low. The disengagement between the formal and informal sectors in Mozambique precisely captures the underlining argument that the rural poor need to fend for themselves. This claim is supported by Wilson's research, which concludes that the most important sources of household income after civil conflict are income generating activities and micro enterprise (Wilson, 2002: 48).

Microfinance clients are very similar all over the world. Many claim that microfinance has helped them improve their enterprises, overcome obstacles and increase their quality of life

(Robinson, 2001: 104). Robinson alleges that one of the main services in demand for the rural poor is savings, because it offers the following advantages: provides source of income during emergencies, enables long-term investments, accommodates social and religious obligations and serves during old age and disability (Robinson, 2001: 246). One can imagine that during conflict, consumption takes precedence over savings, since immanent chaos can deter individuals from thinking of the future. However, once conflict ceases and the transition stage occurs, individuals are keen on rebuilding their lives with the future in mind. Savings, undoubtedly, would prove to be a popular means of credit demand and would calm post-conflict worries about the dangers of volatile conditions of a transitioning environment.

However, Doyle is skeptical. In her research, she did not find a consensus on demand for savings services in post-conflict Bosnia, Cambodia, Rwanda and Mozambique (Doyle, 1998: 24). According to her, the most limiting deterrent to savings is that clients are too poor to engage in commercial savings schemes, since they entail transaction-costs, fees and possibly a small turnover for the time invested (1998: 24). Another deterrent to savings may be due to high information flows in cohesive communities (Robinson, 2001: 157). Communities with strong networks and social ties have high levels of information flows that may breach privacy and curb desires to engage in savings schemes: "poor savers who need their savings for emergencies, consumption smoothing, children's school fees, and their like- often do not want their extended families, neighbors and even household members to have information about their financial assets" (Robinson, 2001: 159). Wilson's research tends to paint a somewhat more detailed and optimistic picture. He concludes that accessibility is necessary to satisfy demand and that evidence of demand for savings exists but only when trust is present and mostly within close circles of family, friends and colleagues (Wilson, 2002: 89).

In terms of credit, there are two types that predominate in post-conflict rural communities in Mozambique. One type of credit is directed at consumption purposes and is usually derived from personal networks, while the other is extended for investment purposes and is usually conducted through the semiformal sector- such as private lenders and NGOs (Fraser and Candido, 2001: 56). After war, both are in demand- as I shall argue later on- but by two different types of rural poor. I will go further into depth about this topic shortly.

In order to understand more about the role of microfinance in a post-conflict environment, I will next examine the role of social capital as the essential component of communal social cohesion and trust. I hypothesize that social capital is the driving force of microfinance participation in rural areas of Mozambique and that microfinance in turn generates social capital by necessitating existence of business relationships that are supported by mutual trust. Since war impacts the environment and coping mechanisms of a society (among many other factors), it is necessary to examine the role of social capital during and post-conflict. On the whole, I will argue that the degree of social capital is indeed an explanatory variable of microfinance participation.

In the next few sections, I will explore the theory of social capital, the role of social capital in post-conflict microfinance and the role of social capital in rural conflict and post-conflict Mozambique. In tying the social capital theory with the observational data of the Mozambique experience, I will focus on finding links between the civil war, its aftermath and the development of microfinance through the lens of social capital fluctuation.

CH 4: SOCIAL CAPITAL THEORY AND OBSERVATIONS

The reasoning behind exploring social capital as an explanatory factor of microfinance comes from theoretical and normative findings that social factors greatly contribute to development. Rankin mentions that there is a consensus among scholars and practitioners that social capital does contribute to the worldwide alleviation of poverty (Rankin, 2002: 1). Since microfinance has the same premise (although consensus is not widespread in this regard), the link between social capital and microfinance can mutually reinforce the agenda of development for the rural poor in the developing world. In understanding civil society's role in development, one must understand the formation, accumulation and fluctuation of social capital, which is a phenomenon that gives rise to trust, networks and the character of civil societies (Fukuyama, 2001).

Social capital can be defined as resources embedded in social networks (Lin & Erickson, 2008: 111). Putnam has defined social capital as "connections among individuals- social networks and the norms of reciprocity and trustworthiness that arise from them" (Lin & Erickson, 2008: 1). Gotschi et al. cite that high levels of social capital assist the development of shared norms and additionally improve the efficiency of a society through communal cooperation (2008: 650-651). In their book of compilation of essays on social capital, Lin and Erickson include publications by numerous researchers who have contributed to the current social capital study. The essays examine social capital's role in production of cultural, occupational and network resources. Most of the research is empirical and quantitative in nature and shows that many factors contribute to the nature and quality of social networks. For example, one study done by Enns et al. establishes that both the geographical location and the social location of network ties are important in understanding how social networks operate (Lin & Erickson, 2008: 256). Basargekar further acknowledges that social capital endowment can be based on weak or strong ties and is dependent on quite a few factors, including history, culture, socio-economic division in a community and the nature of family and kinship connections (Lin & Erickson, 2010: 27).

Cohesive and strong social networks are vital to the operalization of microfinance projects on a community scale and in examining the normative implications of high degree of involvement in community finance in Africa, research can shed more light on the existence and function of social capital in this part of the world. A Gallup Poll administered by English in 2008 (over the period of three years), reveals that one in four Sub-Saharan Africans count on community savings groups to make a living (English, 2008). Additionally, development experts hail community savings groups as an important element of microfinance and key in fighting poverty (English, 2008). Seibel has a very appealing description of the attractiveness of informal microfinance: "Owned and self-managed by local people, poor and non-poor, they are self-help organizations which mobilize their own resources, cover their costs and finance their growth from their profits" (Seibel, 2001: 1).

In placing the community financial initiatives in a grander scheme of national development, research by Osarenkhoe et al. shows that importance of informal activities highly correlates with a nation's level of economic development and quality of institutions (Osarenkhoe et al., 2009). These findings point to the fact that the prevalence and popularity of these initiatives requires a greater understanding of the role of social networks and ties in order to improve development initiatives and policy considerations.

Understanding how social capital is produced, distributed and maintained when it comes to the development of regional programs that aim to sustain these very ties is one of the most important ways of utilizing social factors to gain further understanding of microfinance (Vermaak, 2009: 409). In order to make a persuasive argument that social capital is of such importance that it has the power to influence development projects, it is foremost necessary to showcase how social capital impacts microfinance.

The relationship between social capital and microfinance is cyclical in that high social capital can increase microfinance activity and microfinance activity can in turn generate social capital (Feigenberg et al., 2009: 5). Dense and strong network ties create trust among community members, and this trust is necessary for loan and repayment transactions, service quality and other mechanisms of microfinance sustainability. By meeting with loan group members frequently, clients can influence their social networks positively and increase their social capital; they also are more likely to do business with those that live nearby and those they knew before giving out the loans (Feigenberg et al., 2009: 17). This "business preference" implies that knowing your business partners before business deals are made is an advantage in microfinance. Certainly, high social capital creates better microfinance opportunities.

However, the negative side-effect of high trust that is generated through strong ties can be the propensity for greater social sanctions, and in some cases, higher group loan repayment rates (Cassar et al., 2007: F86). Conversely, this "cost" of participation does not supersede the losses one could endure through non-participation in community microfinance that generates profit. In other words, the risk is worth taking. Given the role of social ties in creating high social capital, what do social ties in Mozambique tell us about the propensity for microfinance activity in its rural areas?

In their publication, Gotschi et al. analyze cultural and environmental characteristics particular to Mozambique and how they impact social capital formation:

> Compared with other countries in Southern Africa, social networks in Mozambique are unique as a result of various factors. Due to low population density, settlement patterns are scattered and farmers often live long distances from each other. Consequently, people predominantly organize their social life around their kin. The extended family provides social protection, as government services (health services, child care, and pensions) are rarely in place…In addition, social ties within communities were largely destroyed during the armed civil war (1984-1992), which displaced about 50 per cent of the population. Perhaps surprisingly, systems of informal co-operation and structure of rural society have survived dramatic changes. (Gotschi et al., 2008: 651)

The social ties in Mozambique are strong, since they are forged among family and close-knit group of friends (Gomez & Santor, 200: 1954). But since communities are isolated from each other and Mozambicans develop social ties based on quality rather than quantity, is the propensity for an extensive network that can create greater social capital limited in such case? Gomez and Santor conclude that weak ties as oppose to strong ties are more important for non-home-based business (2001: 961), but that for home-based businesses, the interaction with knowledge of neighbors was positively related to earnings (2001: 959). In terms of various other findings in regard to the bonding social capital of rural communities (Lin & Erickson, 2008: 258; Cassar et al., 2007: F85), such assertion is credible and points to a likely scenario concerning microfinance activities in rural Mozambique.

Since ties are strong in such areas where interaction with one's community is more personable, home businesses would thrive more successfully as entrepreneurial projects. On the other hand, weak ties are more characteristic of impersonal relationships that are likely more frequent in urban areas, and therefore, imagining the success of non-home-based business initiatives in this context is not very difficult. Indeed, there is enough empirical evidence which shows that network composition of rural and urban residents varies considerably (Lin & Erickson, 2008: 258). The concluding remark about rural networks is that they are more conducive in sustaining strong ties and in accommodating home-based entrepreneurship.

Another element of advantage that rural groups may have in terms of microfinance entrepreneurship is the homogeneity factor. Cassar et al. find evidence that personal trust between homogenous individuals is more important than general societal trust or acquaintanceship to group loan repayment (Cassar et al., 2008: F85). But the line is blurry in what constitutes homogeneity. Is this homogeneity religious, ethnic or economic? A distinct clarification could shed more light on the outcomes of communal differences on microfinancial behavior and should be further explored. Analysis by Plateau shows that in small, rural villages, economic differences play a significant role in microfinancial behavior (relationships between lenders and borrowers). He finds that in Sub-Saharan Africa, informal loans are small and the short-term kind is usually repaid due to insurance incentives. However, when it comes to the long-term kind, the implications are different: "…borrowers do not feel morally obliged to repay debts incurred from richer villagers since they consider that non compliance with repayment obligations is a legitimate way to effect redistribution of income between rich (lucky) and poor (unlucky) people. The effect of this behavior is of course to discourage prosperous people who succeed in accumulating wealth on their own to extend credit to fellow villagers or kinsmen who are economically weaker (Plateau, 2000: 210-211)." This implies that initial economic divides in a community are upheld and proliferated through communal norms, which may deter an important source from lending- the community's better off. I

n terms of "homogeneity, there is also evidence that gender does not play a role in hindering the degree of social capital generated, although traditional roles still limit women in creating new friends and other ties (Gotschi et al., 2008: 653). If homogeneity and strong ties create higher degree of trust among individuals of the same economic standing (Lin & Erickson, 2008: 185), it reaffirms the assumption that rural individuals would most likely trust informal, community-based microfinance lenders over formal banks.

Another dark side of social capital is brought up by Portes as four negative consequences of social capital: exclusion of outsiders, excessive claims on group members, restrictions on individual freedom and downward leveling norms (Vermaak, 2009: 404). If villages are separated according to linguistic, ethnic or cultural differences where the "insiders" do profit from strong ties, the exclusion of those that do not fit insider criteria may result in an unequal access to informal microfinance. Instead of cooperative schemes, communal microfinance projects may take on a role of popularity contests, which would bring up a question whether intermediary institutions (NGOs) could play a role in mediating the exclusion of vulnerable groups. I believe that semi-formal institutions could be the most efficient in servicing these excluded individuals. In terms of policy, this mediating effect would require NGO presence.

So far, it has been theorized that cohesive, homogenous groups that are on the same economic level have strong ties that generate greater trust among individuals and higher group loan repayment rates that are further conducive to home-based microfinance projects. Those that do not belong to the criteria of the group or do not feel strongly about potential social sanctions if their initiatives do not succeed can experience marginalization from communal financial activities at a higher cost than is expected. Social capital and microfinance activity act in cyclical fashion to influence the generation of greater social ties and networks. By failing to participate in communal initiatives, non-participants can fail to create greater social ties that can better their livelihood in many ways.

If cohesion, strong ties and high social capital are characteristic of rural Mozambican society, informal, communal initiatives would be a fitting choice of microfinance in rural areas. However, given that population flux occurs during civil war, does the migration affected communities to the extent that strong ties are damaged and mistrust is pervasive? An NGO employee working in Mozambique in the early 1990s points to the role of trust in the post-conflict transition period:

> "I would say it (the transition from relief to development) happened around 1994/1995. I think the main feature was people's participation….but this was possible sooner in the towns than in rural areas because of lack of trust. Obviously security was an important issue, but, yes, trust in the communities was crucial…" (Wilson, 2002: 46)

One explanation why trust was harder to restore in rural areas is that the break-up of the cohesion where trust was characteristic of maintaining community relations meant that healing and restoring communities would require the reparation of kinship ties, which are more personable and which are more directly tied to an individual's life and well-being. Fukuyama finds that group cohesion affects the proclivity of group members to cooperate with outsiders and channels trust to only insiders of narrow community circles. These traditional rural societies lack weak ties that enable individuals to move from one circle of trust to another, a limitation that characterizes traditional societies as segmentary social units in the form of villages or tribes with specific religion, language, culture or livelihood (Fukuyama, 2001: 9).

At this point, I shall explore the impact of social capital on the civil society in Mozambique during war and come to conclusions whether civil war transformed the traditional social networks in rural areas. If it did, it would be essential to see what the implications of changes in social capital are on post-war entrepreneurial behavior and microfinance. If the war did not transform the traditional ties in Mozambique, then we must look to other causes and explanations for microfinancial behavior. The following chart depicts the hypothesized relationship between civil war, social capital and microfinance activity that will be tested in the ensuing discussion:

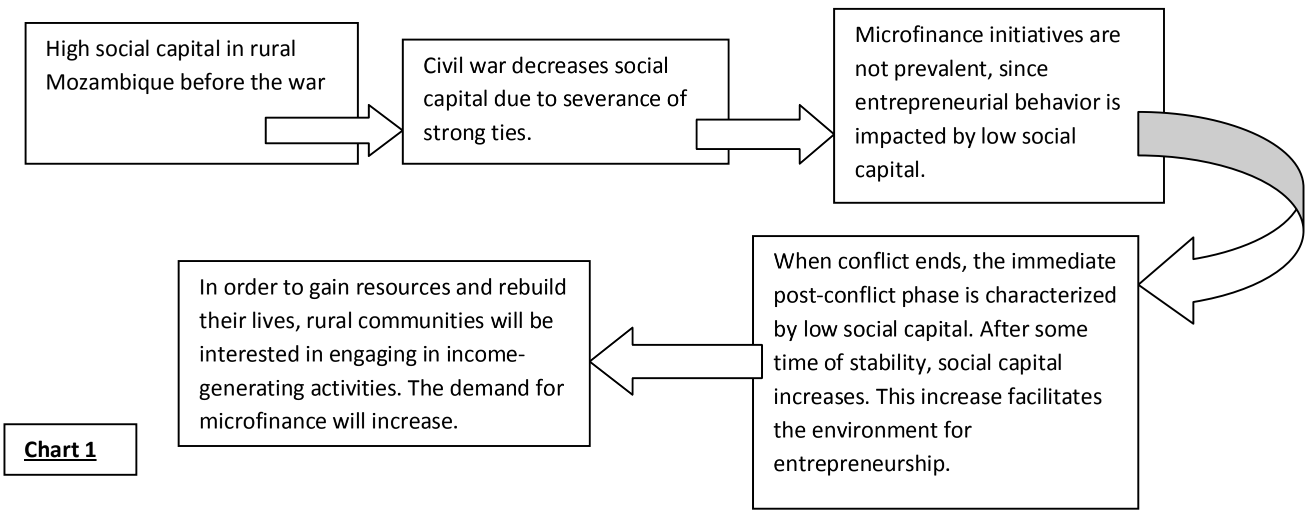

Chart 1

CH 5: CIVIL WAR AND MOZAMBICAN SOCIETY

The role of culture in Mozambique is closely linked to identity (Virtanen; 2005: 223). Once local customs are ingrained in communal identity, a new and unchangeable set of traditions is created that become “invariant” (2005: 224). Withstanding many environmental influences, cultural practices can prevail in closed communities. Such has been the case with many indigenous populations all over the world that did not adapt modern practices or evolve to incorporate them. In understanding development, economics and culture must have a collaborative role in pointing to the specific needs of each developing community or country. The classical development approach that sought to implement a single development model on various different cultures with varying degrees of socioeconomic structures not only failed to deliver the “sustainable” emphasis of its objectives, but further developed a dependency relationship between the West and the developing countries. In viewing development as “case specific,” more progressive development initiatives need to examine culture as a driving force for the nature of sustainable development projects. Instead of concentrating on the systematic output of resources as a measurement tool of development, focusing on social capital, cultural practices, norms and other sociocultural complexities is fundamental in thinking about development in sustainable terms.

Knowing that cultural aspects are powerful in explaining necessary development initiative patterns for the country in question, understanding Mozambican social structure and culture is the first step in the right direction. Microfinance initiatives could explain how well cultural complexities are organized to sustain economic activities, and at the same time, microfinance could restructure social norms through changes in social capital and network structures.

Mozambican society is traditional and is based on a kinship system where communities of related individuals inhabit parts of land (Ndege, 2007: 56). The cultural basis for the existence of tight family units enforces a necessity of a high trust network that produces high levels of social capital. In many regions, ethnic identity is linked to language (Virtanen; 2005: 227), but usage of Portuguese can blur any division-lines in communication and other socioeconomic areas of life. Religion is also an integral part of Mozambican life, with Christianity and Islam being the predominant religions (Ndege, 2007: 21). Given that both Islam and Christianity are religions based on charity, love and compassion, participation in religious life can be viewed as another mechanism that enforces trust and cooperation. These sociocultural characteristics imply that there is a foundation for increased levels of social capital to exist in Mozambican rural communities.

Currently in the discussion, it is imperative to categorize the insinuated singular “rural area” as an actual set of geographically distinct territories that have a unique culture and society. The differences can explain a great deal about one region’s microfinance incentives due to proximities to other resourceful regions and social participation of villages (social capital endowment). In his research of social capital formation and local capture in decentralization in Zambezia, Mozambique, Abe statistically measures social capital through social participation of three villages comprised of three ethnic groups in the Zambezia region: the Lomwe, the Chuabo and the Sena (Abe, 2009: 67). What he finds is that Lomwe people posses a significantly higher level of social capital than the Chuabo and Sena (2009: 67). His concluding remarks about this distinction illustrate how culture in the context of history and geography has a significant effect on social capital:

> These results can be explained by the fact that the formation of social norms may take long time and may have been historically and geographically determined; in other words, regionally different livelihoods of the population

> that has been established for a long period may have significantly influenced the formation of social norms. However, social trust may not take such a long time to be formed, but the relatively recent common, but variant, experience in this region in the post-independence period, that is, the civil war, may have affected the formation of social trust…This result also suggests that the formation and decline of trust is relatively recent, not over centuries as Putnam (1993) claims. In fact, there is no statistically significant association between the variables of social norms and trust. (Abe, 2009: 69)

If culture is pervasive in ascribing norms, what generates the "trust" of family, neighbor and community? In other words, can war minimize and destroy the social capital of communities? One key finding can point us to some possible answers. During conflict, migration from rural areas to urban areas restructures the population makeup of a country, and population density decreases in rural areas (Fraser and Candido; 2001: 29). As was discussed earlier, dense networks create trust. If rural areas experience disruption of traditional and kinship networks due to migration, the consequent density decrease can enhance mistrust.

Following this argument further, it is vital to cite that the population density in Mozambique has been steadily increasing from 9.92 individuals per square kilometer in 1961 to 28.6 individuals in 2008 (Index Mundi). Increasing population cohesion could have played a role in increasing trust levels and social capital. However, despite the increasing levels, Mozambique is still very sparsely populated compared to the African average of 77 individuals per square kilometer; even the African average constitutes the lowest population density of all the world's continents (The World Bank). Worldbank research sites low population density as a developmental disadvantage in Sub-Saharan Africa (The World Bank). I propose that although low in population, given the information available about rural life in Mozambique, villages are cohesive networks that are spread out over vast surface area. In this respect, I don't foresee that social capital would be low in communities but could propose that inter-community trust may be low due to distance between villages and communities. At the same time, since the 1960s, population density has been overall increasing, which further points to the implication that population density did not impact social capital in Mozambique. Having clarified issues concerning the link to density and social capital, the key question when it comes to mistrust is how cemented mistrustfulness of others becomes in a society during fluctuating environmental conditions. This inquiry is fundamental in understanding to what extent environment impacts social capital.

Post-conflict research shows that the civil war indeed impacted social relations within closed, rural communities of Mozambique. Susan Fraser and Rodolfo Candido's 2001 field-research in Manputo, Mozambique, shows that mistrust was so pervasive in the post civil-conflict Mozambique, that even family members became mistrustful of each other:

> [After the end of the conflict,] many rural areas were characterized by limited seasonal local markets due to a thinly spread population and subsistence agriculture and exacerbated by a highly damaged rural infrastructure (Boyle 2001)… Both during and immediately post conflict the rural areas were characterized by higher levels of insecurity…The destruction in many rural areas was considerably greater. Social capital was very eroded, with lack of trust evident even within families. Especially in Renamo held areas, there was deep mistrust both within the communities and towards the authorities. (2001: 30-31)

Mistrust and the decreasing rate of social capital among communities was the consequent product of the effects of the civil war, during which half of the country's population was misplaced. Resettlement gave flux to the original social structure of a traditional family neighborhood organization, and it can be presumed that these post war social and physical shifts brought out a lot of uncertainty and a sense of unpredictability to a stable, traditional culture. As a result, environmental coping mechanisms may have advocated mistrust as a means of "survival" during this transition period. Perhaps greater explanation lies in how the Frelimo state (the Marxist government that ruled Mozambique during the conflict) sought to destroy the customary bases of identity and social order in the country, which generated lawlessness that ignited violence, displacement and obstacles in coping mechanisms- especially for the rural poor (Virtanen; 2005: 238).

The byproduct of these events is the likely emergence of war and post-war mistrust. In 1998, Oxfam reported that rural communities in Mozambique were still experiencing post-conflict flux, but by 2000, the Economic Intelligence Unit reported that the country was on a remarkable recovery and that there was a high level of relative peace and security present, prompting the conclusion that social unrest was not a preoccupying issue in Mozambique at that time (Fraser and Candido, 2001: 21). Although the immediate post-conflict consolidation period between 1992 and 1994 was characterized by high levels of mistrust and insecurity, improvement in security and trust within communities and towards the state and the government began during the transition phase in 1994 (Fraser and Candido, 2001: 31). What this finding reveals is that social capital was low during the consolidation phase but increased during the transition phase.

The costs of war were high. In the nearly two decades of war, Mozambicans experienced social, physical and emotional difficulties. Although social effects of the war are not easy to quantify, Welsch's 2008 research manages to estimate the social costs of conflict by surveying happiness through the analysis of cross-national regressions. Welsch finds a significant correlation between the number of victims of civil war, income levels and happiness. The main crux of the research is that the higher the number of conflict victims and their change over time, the greater is the affect on health, psychic effects and reduced income levels of the nationals (Welsch, 2008: 321; 336). The casualties of war are estimated anywhere from 600,000 to 1 million (Necro Metrics, 2011), and one can suspect that the length of the conflict and the high number of casualties had a profound impact on Mozambican society. Reaffirming the high stakes of war, Mozambican native Teresa- a rural Chipindaumwe- tells of her life during the peak of the conflict in the early part of the 1980s:

> "We were threatened several times by soldiers. Many times we fled to the bush when the fighting was near our homes. One night they came and burnt everything, even my animals. I fled with my family to Bengo and then Cafumpe where I found security. They gave me a plot of land and some food." (Fraser and Candido, 2001: 28)

Since all Mozambicans were influenced by the conflict, stories like Teresa's would not be uncommon. Conflict disrupts development, contributes to loss of human capital through migration, damages social capital to a great extent and creates difficulties of post-conflict coping for generations (Wilson, 2002: 28). In the midst of the survival mode, individuals need access to the most rudimentary forms of subsistence and coping with an environment that cannot provide basic needs necessitates an alternative means of survival. The rural community structure and social identity was mainly administered by village chiefs during conflict, and their roles in post-conflict environment was to integrate into the decentralizing system that called for the reform of previous power-structures (Virtanen, 2005: 245).

Given the dire consequences of the conflict, post-conflict transition had to confront many areas of development and enforce steps towards reconciliation. Although infrastructural development can occur through policy and implementation, social scars take generations to heal (especially when the integration of combatants into the civil society generates questions about justice, coexistence and possible hostilities). One Mozambican newspaper editor argued about the difficulties civil society faced in the transition period and issues that must be confronted:

> I think there are two ways to heal the wounds. One is…whereby people…talk openly [about] what individually they did, people they killed…But in Mozambique this was avoided, nobody wanted to talk about the past…Thus, the better way to ensure the forgiveness of wrongdoings of the past…is…to include all people in the economic, political and social participation in the

> society….To participate means to feel owners of the country…in all spheres of the country. (Colvin, 2007: 334)

Through integration and almost twenty years of post-conflict development, the nation had come far since its post-war uncertainties, although, like in every post-conflict country, the poor are still the last to benefit from any progress. Microfinance, then, becomes one of the primary means of income-generation for the poor after conflict (Fraser & Candido, 2001: 3).

In his research on social capital and civil war in Sudan, Deng finds that it is not clear whether civil war erodes social capital (Deng, 2010: 231). Instead, the impact depends on many factors, from the region to the type of a community. His findings conclude that social capital loss occurred in Dinka communities in Sudan where "endogenous" violence threatened communities but increased when the violence was "exogenous" in nature (2010: 231). If we were to apply this argument to Mozambique, it would seem that internally instigated violence would decrease communal social capital, while violence external to a community would increase it. External violence brings a community together while intra-communal violence divides a community through fear and mistrust. Indeed, there is evidence from the Machaze district in Mozambique that wartime violence did shape communal tensions and relationships, even on the family level (Lubkemann, 2005: 495). Depending on how communities were affected by the nature of the conflict, social capital may have increased or decreased accordingly. The nature of communal violence, therefore, had an observable impact on social capital in Mozambique.

In the following section, I will examine the post-conflict environment in Mozambique, and through qualitative data analysis, test my hypothesis that civil war impacted the low prevalence of microfinance projects in rural areas by decreasing social capital and mistrust in many communities and that post-conflict environment led to the increase in social capital and higher demand for microfinance services. Is the hypothesis correct or are there additional or alternative explanations that can justify microfinance patterns in post-conflict Mozambique?

CH 6: The post-conflict environment and microfinance activity

When conflict subsides, a country enters an emergency relief stage, followed by rehabilitation/reconciliation/peace-development stage and finally, the development stage (Nagarajan, 1997: 4). During the two years after the end of conflict, anarchy was pervasive and trauma from the war inhibited any significant entrepreneurial activity in Mozambique (Dana, 1996: 67). In the last years of the war, however, the policy towards micro-enterprise began to change as the government started to shift away from the "large-scale" economic agenda and to slowly recognize the informal microfinance sector as an important element of development (Dana, 1996: 70). However, in order to have a functioning financial system, it is necessary to have functioning institutions which will support it. By destroying infrastructure and the communications, political, social and economic sectors, war limited and curtailed institutional effectiveness (Aron, 2002: 3).

Incidentally, the war also curtailed private sector activity that inevitably led to inefficiency of operalization once the war was over (Aron, 2002: 3). In the initial post-war years, loans were nearly impossible to obtain without bribes and connections (Dana, 1996: 69). Doyle acknowledges this phenomenon and explains that in the post-war reconstruction phase, the demand for loans is very high, but due to lack of loan capital, it is impossible to meet these demands by either the formal or informal sectors (Doyle, 1998: 23). High demand without supply inevitably left the population discouraged about the scope of opportunities to manage financially.

In the previous section, social effects of the war were brought to light, and inevitably, influenced the demand and infrastructure of the economic sector as much as the crumbling economic sector itself led to further social problems. The driving force of the negative economic effects of war is usually lack of growth due to decreasing levels of private investment (Imai & Weinstein, 2000: 20). Given Mozambique's abundant natural resources, investment in the country could be plentiful and generate great amount of economic growth for the country. Due to conflict, post-colonial time of independence was short-lived and any of the potential the country had for growth due to strategic natural resource management could not be realized. Instead, the elite capture of the state after the war monopolized the resources into enriching the few at the expense of the majority. In fact, as of 2011, over half of Mozambique's population still lives in poverty (The World Bank).

This pattern of confronting post-war reality took about half decade to permeate national consciousness, but as mentioned earlier, by 2000, the social, economic and political situation was vastly improving. Manufacturing and mining industries emerged as the forerunners of growth on the macro-economic scale, and in the 1996 to 1999 time-frame, the GDP growth rate averaged nearly 10 per cent (UN). Consequently, Mozambique was vastly regarded as a transition "success story." By the turn of the millennium, its institutions were healthy enough to accommodate investment and expanding industry sectors, and the urban areas- which saw population growth due to migration from rural areas during the war- were attracting talent, innovation and resources from all over the country. However, the "development success" that was widely praised is largely debated. Despite the few emerging sectors and increasing investment, the country's empirical "growth" did not trickle down to the majority of the population that still lives in poverty. Given the post-war gap between poverty rates and the macroeconomic growth rates, the emerging question is where the growth was channeled and what the implications of this economic capture had for the country.

I would like to argue that the overall growth experienced by Mozambique in the post-war period did not translate to the aggregate prosperity of the majority. Despite its pro-investment and deregulatory policies that facilitated investment growth by 44% between 2007-2009 (Ford, 2010: 68), one can argue that the kleptocratic nature of the post-war politics and the emerging elite capture of the state may have been stifled by levels of corruption, and therefore, it is debatable whether Mozambique was, in IMF's words, "on the right track to implementing growth and reducing poverty" (Hanlon, 2004: 754). Growth in the formal economic sector shows that quality of formal institutions did improve significantly, given that there is a significant and direct relationship between growth and quality of institutional performance (Aron, 2002: 9). In fact, if it was, any development initiatives would target rural development and the economic sustainability of the rural poor, who account for two thirds of Mozambican populace. In words of Fraser and Candido, "[r]educing poverty, and especially absolute poverty, depends not only on economic growth, but on the way this economic growth benefits the vulnerable groups in the society" (Fraser and Candido, 2001: 24).

Since most of the population resides in rural areas, and as a consequence of being neglected by the formal sectors of the economy, it is not surprising that in 2008, Mozambique's informal economy accounted for 75% of the country's economic output (Dibben and Nadin, 2011: 55). This trend can be credited to the effects of the collapse of the functioning state and the formal financial system, which increased the dependence on informal financial initiatives (Aron, 2002: 7). The reliance on informal financing can also be ascribed to the inefficiency of formal financial institutions that are too weak to provide "sustainable" service due to bureaucracy and lack of knowledge about microfinance (Nagarajan, 1997: 9). But maybe the most viable explanation can be that due to the location constraints and infrastructure collapse, formal institutions cannot reach the rural poor and the population is left to fend for itself. Indeed, evidence shows that informal activity is present during conflict and even thrives during the emergency phase; it is however the most active at the end of the emergency stage of the conflict (1997: 9).

Trust and security prevail as the most important preconditions for the proliferation of post-conflict microfinance projects (Fraser and Candido, 2001: 28). Fraser and Candido find that there is a correlation between intensity of conflict and levels of social capital and that social capital is the highest when conflict levels are the lowest. They also find a positive relationship between social capital and mistrust, which is anticipated since trust is one of the essential elements of social capital. In fact, they find that mistrust in Mozambique was the highest in the 1992-1994 period, the crucial transition stage when returnees were returning to their original homes. However, after 1994, and after reestablishing networks and ties, social capital was on the moderate scale as trust was improving (2001: 32-33).

The variation in trust levels is therefore heavily influenced by conflict, and since trust is important in conducting microfinance activities, conflict does influence the propensity, prevalence, and quality of microfinance. If this is so, then conflict does have a significant influence on microfinance and social capital is an explanatory factor that underlies the association. In terms of linking social capital to microfinance, it is important to take into account the endogeneity problem and look at other factors that were transforming the conflict and post-conflict environment in Mozambique. In cases where many factors have an explanatory value in causality of certain conditions, it is important not to discard them, but to take them into account and make assumptive “impact analysis” of each accordingly. Incidentally, to what extent social capital is the contributing factor to conflict and post-conflict impact on microfinance cannot be measured empirically but rather evaluated in terms of qualitative findings and what they can tell us about the necessity of certain preconditions in explaining observed outcomes.

In the following chart, Fraser and Candido offer a summary overview of their research that shows how various "conditions," including social capital, affected microfinance activity from the onset of the civil war until 2001 (when they conducted their research).

Characteristic	**1975-1981** ***Pre and Initial Conflict Stage***	**1981-1986** ***Highest Peak of the Conflict***	**1994-present** ***Post-conflict Stage***
Market Activity	Low as resources targeted towards large state farms.	Extremely low. Localised markets in urban areas.	High.
Intensity of Conflict	Low but Increasing	Increasing. Highest point 1984-1986	Non-existent
Movement of People	Exodus of Portuguese in 1975.	Rural-urban influx to escape Renamo attacks.	Trickle of refugees returning. Significant IDP movements.
Banking System	Existing banking system.	Banks in rural areas destroyed.	Privatization of banking system completed.
Inflation	----	Moderate-high	Declining to 3.8 percent in 1998 (HDR 2000).
Social Capital	High.	High but decreasing rapidly.	Moderate.
Level of Education	Extremely low. Significant progress made.	Conflict disrupts education.	Improving. Still high levels of illiteracy.

** For a more elaborate version of the chart, see the appendix- pg. 61. The chart is replicated and adjusted from pg. 32 of Fraser and Candido's research.

Microfinance Sector	Limited informal microfinance.	Limited informal microfinance.	Semi-formal microfinance Sector developing in urban areas.

Chart 2

Examining the results, few trends can be observed that may paint a more vivid picture of the current situation of social capital and microfinance in Mozambique. It can be noted that the level of social capital was the highest when conflict levels were low and the lowest when the conflict was shifting from moderate to high levels. The decreasing rate of social capital can be attributed to high levels of population shifts ("movement of people") during the war and succeeding mistrust among the returnees after the conflict subsided. Over one million refugees returned to their homes after the conflict ended and deep mistrust even among family members was wide-spread due to the length of severance of close ties (Fraser and Candido, 2001: 30). When it comes to the overall interpretation of the chart, the social capital/migration link seems to be the strongest one.

Another pattern of association shows that high market activity during the transition period coincides with increasing social capital and higher development of the microfinance sector. In my research of pre-conflict microfinance activities in Mozambique, I could not find any sources that document microfinance activity in the region. I imagine this is so because in the 1970s, when the conflict began, microfinance was operating at a level of infancy throughout the world and informal activity was overlooked and rarely documented as a result. In this regard, it is difficult to compare the link between microfinance and social capital during this time. War also influenced the institutional set-up for formal and semi-formal microfinance and only informal sector emerged as a limited source of lending (this is so especially in the rural areas).

What the findings further show is the fluctuation of social capital according to the intensity of war and migration. Microfinance seemed to be in most demand after the conflict subsided, social capital was rising and when migration subsided. During the transition phase to peace, high market activity, privatization of the banking system and emergence of the semi-formal microfinance sector inevitably led to a growth period on a macroeconomic scale. How this opening of the markets influenced the rural areas is unclear, although it could be speculated that demand for labor and entrepreneurship affected the rural areas as well through the emergence of accessible markets, NGOs, investment schemes and informal lenders in the rural areas. Findings show that the informal microfinance sector was limited throughout the conflict and this can be attributed to the fact that market activity and cash flow was low in rural areas (Fraser and Candido, 2001: 39). Nevertheless, the limited presence that did exist can be attributed to social capital, since friends, family and neighbors functioned as important sources of credit in rural areas (2001: 39).

Having discussed how culture (long-term) and conflict (short-term) influence norms that have an impact on microfinance activity, I will now elaborate on the nature of the microfinance activity in Mozambique from 1992 onwards. Microfinance in Mozambique was described by de Vletter to be "chaos" (de Vletter, 1996). If this is the case, what were the main obstacles to microfinance in this period and how did the population cope with financial needs at this time? Fraser and Candido find that the nature of post-conflict environment, coping mechanisms and products in demand provisions can explain a lot about microfinance in Mozambique. Their findings concentrate on how these three factors influenced and were influenced by microfinance.

I include the most significant findings of the three conditions here (in the order that I find relevant to my research) and evaluate each set of findings in terms of its greater implications.[1]

The Environment (paraphrased from pg. 2):

- *Trust is essential for informal microfinance to develop and security is essential for semi-formal and formal microfinance to develop. Once trust, security and understanding of the political and socioeconomic situations are met, microfinance becomes an appropriate intervention during the post-conflict emergency/relief stage.*

Fraser and Candido's findings resonate with the previous theoretical overview that *trust is an important component of social capital that is essential for microfinance.* Using a cross country comparison of post-conflict nations, Wilson also finds that *"trust and knowledge of borrowers' business is essential for informal microfinance"* (Wilson, 2002: 48). Yet another interesting finding- but one that makes a lot of sense for a post-conflict transition phase- is the importance of security. Investing in formal markets requires that borrowers and lenders have safe facilities where business transactions can be securely processed and loans can be documented and managed. The implications of the chaos that follow in the peace process are that the society, politics and economics emerge in a state of flux with no infrastructure to manage the changes, which can have great implications on all aspects of society. This point is valid and credible in explaining why microfinance activity would be hindered by this environment. Overall, both informal and formal microfinance was able to flourish in Mozambique when the infrastructure of the society was stable enough to produce security and accommodate trust.

Coping Mechanisms (paraphrased from pg. 2-3):

[1] The source of these findings is "Research Study of Post-Conflict Microfinance in Mozambique" by Fraser and Candido.

- *Informal microfinance is an important coping mechanism both during and after conflict. Semi-formal microfinance is an important coping mechanism post-conflict. Coping mechanisms vary within the country, province and district and evolve over time depending on the environment.*

In terms of coping mechanisms, the findings show that informal microfinance activities are not only conducive to long-term financial security but also act as a means of coping during times of scarcity, uncertainty and immobility. Once security becomes more prevalent in the post-conflict environment, semi-formal microfinance institutions like NGOs can act as an intermediary between the lenders and borrowers. During transition to peace, borrowers are prone to think of sustainable business initiatives as long-term projects and may invest more resources in microfinance. Security and institutional checks-and-balances provide and ideal environment for financial transactions, and given that NGOs seek to reach out to the poor in the rural areas and are independent agents, they act as the primary mediators of such transactions. They are both accessible and reliable sources for the poor.

<u>Products (paraphrased from pg. 3):</u>

- *Semi-formal microfinance is an important source of credit for the entrepreneurial poor. For the poorest people, credit for consumption is more important than credit for investment and flexibility of microfinance products is usually preferred. The demand for certain products also changes with the evolving environment.*

Findings on product preference imply that for the poorest microfinance borrowers, immediate "reconstruction" of lives would entail consumption rather than investment for obvious reasons. Rebuilding homes, buying crops for farming, buying food and other necessities are short-term priorities that take precedence over long-term investment. Once the immediate consumption is satisfied, rural individuals look to the future as a means to engage in new opportunities and as a means to secure a brighter future. Therefore, the security offered by semi-formal microfinance institutions can buttress this eagerness to undertake financial risk for the premise of long-term improvement of livelihood.

Social capital is advantageous in that it creates incentives to do business with individual one knows well. Where social capital is lacking, so is security. A moneylender from Chimoio town, Mozambique, emphasizes how security and trust go hand-in-hand when lending money to others:

> "I only lend to people I know. I know where they live and I know what they do. You had to be very careful with the people you trusted after the war because they could disappear. I know cases of people who gave their livestock to people to be sold and they never saw those people again." (Wilson, 2002: 74)

It seems that both lenders and borrowers profit from trust and security, and in the immediate post-conflict environment, both factors were lacking. Such social barrier was further exasperated by lack of markets that could foster business initiatives. In the rural areas, although there was high demand for consumption at this time, the social and economic obstacles led to a large growth of a gap in supply and demand of microfinance. Consumptive needs were satisfied through help from family and friends, while informal microfinance was conducted as a coping mechanism during which individuals took trade credit, animal credit from one farmer to another and invested in community savings (Wilson, 2002: 72). The poorest of the rural poor did not participate in microfinance even when macro-economic situation and investment was improving in Mozambique, since their needs were usually immediate and called for access to food, clothes and shelter (Wilson, 2002: 67). The risk of being unable to repay interest rates offered by the semi-formal sector is usually not worth taking unless the loans are interest-free and are geared towards consumption purposes and savings rather than investment.

By working in the rural areas (accessibility) and making sure interest rates are small enough for the poor to afford, the semi-formal sector can offer great incentives for entrepreneurial poor to borrow credit. The most advantageous role of the semi-formal sector is that it can service the marginalized members of a community that do not participate in informal microfinance activity due to low social capital or other factors. However, when it comes to the less-off poor, they usually have a higher preference for savings over credit, because they are afraid of the risk that is present in the instance one is unable to pay off loans and are attracted to the option of safer profit-generating methods of income generation; for these reasons, savings are in higher demand than credit (Fraser and Candido, 2001: 66). In fact, savings was initially the main microfinance product in rural areas, provided that by 2005, rural savers accounted for 40% of all microfinance savers in Mozambique (de Vletter, 2006: 6).

Due to its macro-economic aims and objectives and lack of incentive to lend to the poor, the formal sector is almost absent from the post-conflict lending schemes involving the rural poor. After conflict, there is a strong necessity to rebuild and all financial sectors are open to investment and development projects that will foster growth. However, since institutions are also altered by conflict, the nature of post-conflict institutions is usually not "healthy" enough to accommodate investment transactions on the macro level and the lack of investment due to potentially unsafe transition climate further immobilizes the demand for growth and development. The volatile institutional climate is an easy prey to kleptocratic capture, and in Mozambique, the elite capture of the political and economic realms is telling of how important it is for post-conflict countries to implement checks and balances in all sectors of society in order to minimize rampant corruption.

As a fitting alternative, the semi-formal sector is much more successful in conducting financial transactions with entrepreneurial poor who are past the stage of consumptive borrowing and are keen on perhaps taking greater loans to finance business initiatives that will rebuild their futures. The appeal of the semi-formal sector- mostly NGOs and private lenders- is that it is comprised of independent institutions whose agenda is to cater to the poor. Initially, semi-formal microfinance only catered to urban and peri-urban areas, but over the years, the proliferation of the institutions willing to lend meant that even the rural areas began to be serviced (Fraser and Candido, 2001: 40).

The demand for microfinance existed during the conflict but increased significantly in the post-conflict period. What this suggests and what Fraser and Candido's findings show is that despite the demand for microfinance during conflict, the prevalence of microfinance initiatives was low during conflict. This coincides with high rates of migration and subsequent low social capital; it also coincides with lack of healthy institutions and networks that could support the demand of rural individuals to make ends meet. The effect of the war on households is also noted. The most significant effect, in this regard, is loss of assets due to destruction or forced migration. Coping with loss of assets creates demand for income generation, and most often, households rely on income diversification and various sources of income to make ends meet (Fraser and Candido, 2001: 36-48). When demands of income-generating activities cannot be met, means of survival are likely to include trading and borrowing.

After the conflict ended, trading was an important means of income generation and increase in security meant that there were higher rates of fulfilled demands than during the conflict. Nevertheless, access to capital was low due to the erosion of the financial institutions and ensuing low market activity. In understanding how post-war macroeconomic changes led to the impact on microfinance behavior of the poor, I will need to look at the connection between the growth of the economy and if this did lead to higher economic opportunities for the poor. Earlier in the discussion, I brought up the point that there is a vast disconnect between the kleptocratic formal institutions and the rural communities that do not have access to them due to low education, distance and other factors. And this disconnection works both ways. The formal institutions rarely account for informal activities as a contributing factor to national growth levels (Osarenkhoe, 124). However, opening of markets must create greater demand for labor and depending on the access, willingness and skills, rural individuals can choose to participate and be affected by the system. Most likely, macro markets create provisions for micro-level and informal markets to open; credit and savings lenders are able to proliferate if investment in the country increases and institutions are capable of supporting demand for such services.

Mozambique emerged from the conflict with centrally-planned economy that operated by the rules of the Socialist state. In the post-conflict phase, the economy and its supporting institutions had to change drastically to accommodate a market economy. Additionally, the state required to build institutions that could operate under the post-conflict environment, which was characterized by lack of security, erosion of trust and high social mobility. In order to compensate for the severance between the macroeconomic (urban-oriented) and microeconomic (rural-oriented) sectors, semi-formal microfinance institutions assisted by NGOs usually work to help the poor with post-conflict livelihood- especially with loans and grants (Nagarajan, 1997: 6-8).

According to Nagarajan's 1997 research of developing financial institutions in conflict-affected Cambodia, El Salvador, Mozambique and Uganda, she concludes that certain microeconomic and macroeconomic conditions can impede the demand for financial service during conflict. In terms of macroeconomic impediments, Nagarajan finds that conflict disrupted informal microfinance schemes in Mozmabique (such as the Xitique initiative) by dislocating people, which led to lack of trust and confidence within rural communities. For success in conducting financial group enterprises, personal knowledge of group members and trust is essential. Microeconomic impediments are also trust-related. Nagarajan discerns that trust in the national economy is earned more rapidly than trust in institutions and communities (1997: 7-8).

His findings imply that the more personally individuals are connected to the elements in their environment, the greater the impact of war on the trust towards those elements. This implication resonates with Fraser and Candido's acclaim that even family members were mistrustful of one another during and immediately after conflict.

Nagarajan's research is indicative of the importance of social capital for post-conflict microfinance by demanding that conditions of trust and personal knowledge of group members are necessary for micro and macroeconomic initiatives to originate and thrive. This may not be indicative of urban centers where weak networks are usually the most economically rewarding form of social capital when it comes to involvement in formal economic sector, but it is very foretelling of the necessity of strong ties and close relationships in rural areas where such networks are financially rewarded in the informal sector. In fact, "frequent interaction among group members builds social capital and improves their financial outcomes [and] clients who [meet] more frequently were less likely to default in subsequent loan cycles" (Feigenberg et al., 2009: 1). High level of interaction, trust and cooperation are all factors that increase social capital that facilitates informal microfinance activities.

Numerous findings show that high social capital improves informal microfinance initiatives in post-conflict countries and the findings are even more relevant in the case of Mozambique and its internal sociocultural infrastructure. Given the prevalence of poverty and the high degree of rural inhabitation where communities are organized on the basis of kinship, it is no surprise that informal trade and market activity would be the selected means of income generation. Although informal microfinance activity was very low during conflict, in rural areas, it was nonetheless an extremely important means of income-generation (Fraser and Candido, 2001: 38). After the war, institutionalization of informal microfinance faced obstacles not only because of the refugee returnees and low social capital due to violence and migration, but because the overall scale of market activity was likewise low. However, in the transition period, with the increase and trust of social capital and demand for income-generation, village banking and other informal microfinance schemes became more prevalent.

In Wilson's research of multiple conflict-ridden countries, he finds that microfinance products are an important means of coping during and after conflict. Labor, trade and microfinance predominate as the major income-generating activities in post-war Mozambique. The most common income-raising activities post-conflict are fetching firewood, farming small agricultural plots, running business in the informal economy in urban areas, trading imported goods, waged labor and selling agricultural surplus to wealthier people (Wilson, 2002: 68-69). Participation in two out of the three sets of activities involves personal interaction with others, and for that reason, I believe that the role of social capital even permeates the scope of microfinance.

Across the board, in post-conflict Rwanda, Angola, Cambodia and Mozambique, Wilson finds that demand for microfinance takes a uniform pattern. He concludes that in these post-conflict societies, the demand is the greatest for informal microfinance products. In a nutshell, his investigation confirms what the analysis had so far established: that individuals prefer informal resources for loans, because access and flexibility to informal microfinance is more suitable for the rural way of life (Wilson, 2002: 92). In terms of post-conflict microfinance and despite that informal microfinance is usually the only means of economic activity in rural areas during and post-conflict, rural poor do demand and prefer informal microfinance products. How this preference ties to social capital is quite simple: high social capital enables informal microfinance to thrive. Not only do entrepreneurial projects necessitate social capital to be sustainable and successful, but through high level of interaction between clients (lender, borrower, seller or buyer), microfinance can build social capital (Feigenberg et al., 2009).

Given Fraser, Candido and Wilson's field-research conclusions, the link between social capital and informal microfinance is *symbiotic* in terms of economic development in rural areas. With regard to development, agricultural microfinance was one of the more popular product demands in Mozambique in 2005. The highest microfinance product demands that year were in the category of microenterprises (47%) and the combination of microenterprises and agriculture, which constituted 44% of borrowers (de Vletter, 1999: 22). The rising security in the transition period also led to the proliferation of semi-formal microfinance institutions. De Vletter concludes that in the mid 1990s, microfinance in Mozambique was largely driven by international NGOs, such as CARE International. By 2000, there were about 23,000 active microfinance clients in Mozambique and given that 52.6% of the overall borrowers were female in the mid-90s, one can suspect that the majority of microfinance borrowers today are still predominantly women (de Vletter, 1999: 13; 24).

CONCLUSION

In the preceding analysis, my aim was to examine whether the civil war in Mozambique had an impact on conflict and post-conflict microfinance with social capital as an explanatory variable. The findings suggest that the war did, in fact, impact microfinance initiatives during and after war- and much of this impact is related to social capital. My finding that informal microfinance is the most popular means of microfinance in rural areas of Mozambique suggests that cohesive communities require high levels of social capital in order to conduct business with family, neighbors or community-members. Strong ties are important in rural Mozambique, particularly because rural communities are dispersed from each other and are based on kinship arrangements.

As evidenced by Fraser and Candido's research, social capital was high in Mozambique before the onset of war, low during the highest peak of the conflict and moderate during the post-conflict transition phase. Although informal microfinance was a coping mechanism during the conflict, after conflict, it became an income-generating activity characterized by demand for credit and savings. This demand also outreached to semi-formal microfinance, which was the institution that entrepreneurial poor could afford to engage with if the fees and costs were low enough to negate the risk of involvement. The presence of the semi-formal sector, in addition, can help individuals hold savings in privacy and could provide marginalized members of a cohesive community with options to engage in entrepreneurship. Trust is necessary in order to sustain informal microfinance, while security is necessary for semi-formal microfinance to thrive. The level of both of these conditions increases when peace has been achieved and as time passes after conflict.

Nagarajan's conclusions confirm my analysis that trust is an essential component of informal microfinance and Wilson's data complements these conclusive remarks by suggesting that rural individuals do prefer informal microfinance due to access, reliability and fewer marginal costs. Provided that the precondition for the pervasiveness of trust is high level of social capital, I am concluding that high social capital of an individual and of a community is essential for the supply, demand and prevalence of informal microfinance in rural Mozambique. Indeed, social capital is an explanatory factor of microfinance activity in post-conflict, rural Mozambique.

In the introduction, I posed a second important question that I wanted to answer concerning the nature of microfinance: What are the main obstacles to microfinance initiatives for the Mozambican rural poor in the post-conflict period? From the analysis, I present my answer as the following: the main obstacles are mistrust, lack of security and lack of resources. Since there is a clear severance between the formal and informal finance sectors in Mozambique, the rural poor are left to fend for themselves and have to make livelihood from various income-generating activities. However, the situation is the toughest on the poorest of the poor who cannot participate in microfinance schemes, since consumption is their immediate objective.

How this finding of the role of social capital in conflict and post-conflict microfinance relates to other post-conflict rural areas is still up to speculation. Wilson's research emphasizes that the demand for informal microfinance was uniform in post-conflict Angola, Cambodia, Mozambique and Rwanda. This conclusion suggests that in developing and rural countries that experienced civil war, rural poor have similar needs, coping mechanisms and demand for income-earning activities.

The implications of my analysis point to the need for high social capital in post-war development initiatives of rural communities. Although informal microfinance is community-managed without external assistance, understanding its role in rural development can lead to national policy formulations that capitalize on its capacity to sustainably develop from within. If the rural development agenda of the national agenda is to enforce informal microfinance to thrive and that demand is met with adequate supply of credit and savings, external actors should aim to enforce post-conflict community-building strategies that will increase trust, strengthen ties and produce high levels of social capital. In brief, when it comes to policy implications for the sustainable development of rural communities through informal microfinance in a post-conflict environment, community-building should be one of the main policy considerations. Without trust and cooperation of one's family, friends and neighbors, few income-generating activities would succeed in a post-conflict rural environment.

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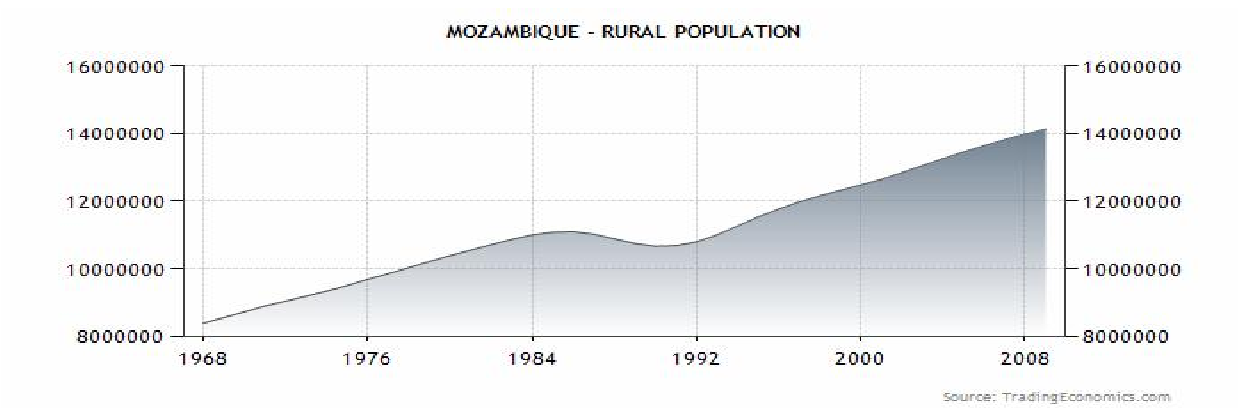
APPENDIX

1. *Map of Mozambique:

2. *Annual Rates of Rural Inhabitance:



3. *Economic Indicators (UNICEF):

Economic indicators	

GNI per capita (US$), 2009	440
GDP per capita average annual growth rate (%), 1970-1990	-1
GDP per capita average annual growth rate (%), 1990-2009	4.3
Average annual rate of inflation (%), 1990-2009	18
% of population below international poverty line of US$1.25 per day, 1994-2008*	75
% of central government expenditure (1998-2008*) allocated to:, health	5
% of central government expenditure (1998-2008*) allocated to:, education	10
% of central government expenditure (1998-2008*) allocated to:, defense	35
ODA inflow in millions US$, 2008	1994
ODA inflow as a % of recipient GNI, 2008	25
Debt service as a % of exports of goods and services, 1990	21
Debt service as a % of exports of goods and services, 2008	1

4. ***Fraser and Candido's Research Chart (more detailed version than the one included in the text)**

Characteristic	1975-1981	1981-1986	1987-1991	1992-1994	1994-present
Market Activity	Low as resources targeted towards large state farms.	Extremely low. Localised markets in urban areas.	Increased as a result of free market reforms.	Medium-high in urban areas. Negligible in rural areas.	High.
Intensity of Conflict	Low but increasing	Increasing. Highest point 1984-1986	High but decreasing.	Low	Non-existent
Movement of People	Exodus of Portuguese in 1975.	Rural-urban influx to escape Renamo attacks.	High. Over half the population displaced or refugees.	Refugees and IDPs returning to place of origin.	Trickle of refugees returning. Significant IDP movements.
Banking System	Existing banking system.	Banks in rural areas destroyed.	Beginning of privatization under ERP.	Privatization continues.	Privatization of banking system completed.
Inflation	----	Moderate-high	Moderate-high	High	Declining to 3.8 percent in 1998 (HDR 2000).
Social Capital	High.	High but decreasing rapidly.	Low due to massive population movements.	Low but increasing. Mistrust amongst returnees.	Moderate.
Level of Education	Extremely low. Significant progress	Conflict disrupts education.	Conflict disrupts education.	High levels of illiteracy.	Improving. Still high levels of illiteracy.

	made.				
Microfinance Sector	Limited informal microfinance.	Limited informal microfinance.	Limited informal microfinance.	Limited informal microfinance. Credit and grants from NGOs.	Semi-formal microfinance sector developing in urban areas.