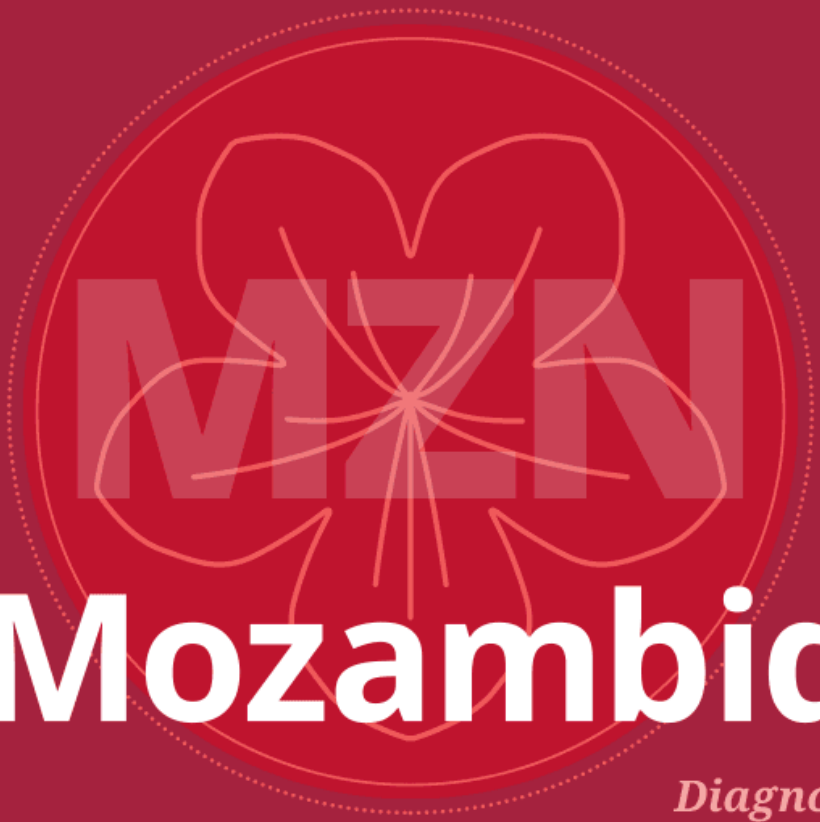
Making Access Possible



Mozambique

Diagnostic Report

2014

cenfri
The Centre for Financial Regulation & Inclusion

FINMARK TRUST
Making financial markets work for the poor

UNCDF | MAKING ACCESS POSSIBLE

THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI)

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PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recom-mended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and enti-ties impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners, collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Mozambique represents a partnership between UNCDF Cenfri and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Mozambique. This report was produced by Cenfri.

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List of Abbreviations and Acronyms

AFD	Agence Française de Développement
AFI	Alliance for Financial Inclusion
AKAM	Aga Khan Agency for Microfinance
AMOMIF	Mozambican Association of Microfinance Institutions
AML	Anti Money Laundering
ASCA	Accumulating Savings and Credit Association
ATM	Automated Teller Machine
BCI	Banco Comercial e de Investimentos
BdM	Banco de Mocambique
BIM	Banco Internacional de Moçambique
CCOM	Caixa Comunitaria De Microfinancas
CENFRI	Centre for Financial Regulation and Inclusion
CFT	Combating the Financing of Terrorism
CGAP	Consultative Group to Assist the Poor
CGSM	Companhia Geral De Seguros De Mozambique
CIP	Centro de Integridade Pública
CPPM	Caixa de Poupança Postal de Moçambique
CPSS	Committeee on Payments and Settlement Systems
CSD	Central Securities Depository
DGF	Deposit Guarantee Fund
EFT	Electronic Fund Transfer
EMOSE	Empresa Moçambicana de Seguros
FDD	Fundo Distrital de Desenvolvimento
FISF	Financial Inclusion Support Framework
FNB	First National Bank
FSAP	Financial Sector Assessment Program
FSDMoç	Financial Sector Deepening Mozambique
GDP	Gross Domestic Product
GIIF	Global Index Insurance Facility
GIZ	Gesellschaft für Internationale Zusammenarbeit (Society for International Cooperation)
GPF	Global Policy Forum
IESE	Instituto de Estudos Sociais e Económicos (Institute of Social and Economic Studies)
IFC	International Finance Corporation
IMF	International Monetary Fund
INAS	National Institution for Social Action
INGC	National Institute for Disaster Management
ISSM	Institute of Insurance Supervision of Mozambique
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
KYC	Know Your Customer
MAP	Making Access to Financial Services Possible
MAE	Ministry of State Administration
MCS	Moçambique Companhia de Seguros

MDB	Mozambique Development Bank
MFI	Micro Finance Institution
MIMAS	Ministry of Women and Social Action
MFSDS	Mozambique Financial Sector Development Strategy
MLTS	Mozambique Tobacco Leaf Company
MMO	Mobile Money Operators
MNO	Mobile Network Operators
MPD	Ministry of Planning and Development
MSME	Medium Small and Micro Enterprises
MZN	Meticais
NPL	Non-performing Loans
OPE	Organizações de Poupança e Empréstimo
PERPU	Strategic Programme for Urban Poverty Reduction
POS	Point of Sale
PRE	Economic Recovery Program
PSA	Programa de Subsidio de Alimentos
RTGS	Real Time Gross Settlement System
SADC	Southern African Development Community
SIM	Seguradora Internacional de Moçambique
SIMO	Sociedada interbancaria de Servicos de Mocambique
TDM	Telecomunicações De Moçambique
UNCDF	United Nations Capital Development Fund
USAID	United States Agency for International Development
VSLA	Village Savings and Loans Associations
ZAR	South African Rand

Executive summary

Mozambique is a country on the move. Since emerging from its long civil war in the 1990's, the country has liberalised its economy, initiated the construction of new infrastructure on a vast scale and instituted extensive public reform. The financial sector, in particular, has seen far reaching changes. Not only were several state-owned financial institutions privatised, but many new financial institutions have emerged. The economy responded with strong growth, averaging 7.5% in real terms between 2005 and 2014.

This report asks a simple question: to what extent has the liberalised, fast growing economy and the rejuvenated and reformed financial sector succeeded in delivering financial services to the people of Mozambique? Put differently, how inclusive is financial sector development in Mozambique?

To answer this question, the United Nations Capital Development Fund (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri) partnered to undertake a Making Access to Financial Services Possible (MAP) diagnostic in Mozambique in 2013-14. MAP combines a comprehensive analysis of the demand for, supply and regulation of retail financial services in a specific country with a dialogue process among the main stakeholders in the financial sector. In this manner it seeks to both assess the current state of access to and usage of financial services, and identify opportunities for the extension of financial services to improve individual welfare and wider economic growth.

MAP Mozambique was able to draw on a number of primary data sources to create the most comprehensive picture yet of financial inclusion in Mozambique:

- FinScope consumer surveys[1] from 2009 and 2014 provided comprehensive, nationally representative surveys of consumer realities, perceptions of financial services, needs, access to and current usage of all categories of both formal and informal financial services. Comparison of the two surveys enabled an assessment of progress over the five year period.
- FinScope MSME survey conducted in 2012 provided data on the use of financial services by Micro, Small and Medium Enterprises.
- Qualitative demand-side research consisting of 60 individual interviews, 6 focus groups and 36 market place interviews was used to interrogate specific target market segments Interviews and focus groups in the Northern provinces focused on adults involved in agriculture, in the central provinces the focus was on tourism, and in the south the focus was on urban traders in Matola and Maputo.
- Supply-side information was drawn from financial sector data obtained from the Banco de Mozambique (BdM), the Institute of Insurance Supervision (ISSM) and individual financial institutions.
- A market scan of entry-level financial products was undertaken in 2014 to determine, among other things, available products in the market and eligibility requirements that may pose barriers to accessing these products.
- In-country consultations with public, private and non-governmental organisations were undertaken in 2013 and early 2014.

[1] FinScope Consumer Survey is national representative survey – www.finscope.co.za

Financial inclusion policy

The Government of Mozambique has expressed a strong commitment to build an inclusive financial sector. The Mozambique Financial Sector Development Strategy articulates a number of strategies to achieve a goal of no less than 35% of the adult working age population having physical or electronic access to at least one financial service provided by a regulated financial institution by end 2020. These strategies include the development of financial sector infrastructure, including payments systems, building a microfinance sector, promoting rural financial services, and enhancing financial literacy and consumer protection.

Market findings

Increase in banked population. FinScope 2014 found significant growth in financial inclusion since 2009. **Figure 1** below shows that the banked population increased from 12% to 20%. Adults served exclusively by other formal financial services, such as microfinance operators, insurers or mobile money operators, increased to 4% from almost nothing[2]. The current 24% of adults reporting formal access brings the country within striking distance of the 35% target set by the government for 2020.

Growth in financial inclusion reaching a ceiling. However, MAP reveals two major challenges with the current growth of financial access. Firstly, Mozambique is close to reaching a ceiling for formal access beyond which it will be very difficult to grow. Secondly, the character of formal financial inclusion as it evolved in Mozambique delivers limited value to households and does not make the contribution to the country's growth and development that it should.

Figure 1: Mozambique financial access strands

Source: FinScope Consumer Survey 2009, 2014.

Stark urban rural divide limiting expansion of formal financial services. **Figure 1** above shows that nearly two times as many urban adults as rural adults report using any kind of financial services, reaching as high as four times for financial services offered through banks. Unless determined action is taken by both government and financial services providers, it will be very difficult to break through the barriers that obstruct financial access for the bulk of the rural

[2] The access strand is inclusive from the banked side, i.e. those indicated as banked, may also use formal non-bank or informal services.

population. Two thirds (67%) of Mozambique's 14.43 million adult population resides in rural areas. Only 13% of them have access to formal financial services, compared to 44% of the urban population. FinScope 2014 revealed that half of the rural population never travels to a bank branch, ATM or other financial institution, whilst 80% of urban adults do. Those who do want to reach a bank branch or ATM in rural areas usually have to travel more than one hour, effectively making it unaffordable. Large components of the rural economy is not even monetised. Of those who farm, 41% do so entirely or largely for subsistence and 26% of the population receives their income or other support in both cash and in kind. The remaining economic exchanges take place in cash. Most rural Mozambicans thus live in a pre-financial society, drawing on their local community and family to survive and deal with risk events. The financial sector is not evolving in a direction where it can serve the rural population effectively any time soon. Moving beyond the 30% to 40% level of formal access will thus require significant changes in infrastructure and supply of financial services.

Informal services meet most of the population's financial service needs. MAP revealed that bank accounts are overwhelmingly used by clients to meet two needs – to send or receive remittances within the country or to receive a salary. Beyond these two uses, formal financial services serve very few needs - payments, credit, savings or risk management - of the country's population. The bulk of the nation's financial services needs are met through informal services, of which cash transactions and informal savings through *xitiques* are by far the biggest. **Figure 2** below deconstructs the access strand to show how many people use both formal and informal financial services. It highlights that when taking into account total usage more people use informal services than formal services. Further, most adults who report using formal financial services use only one, but use more than one informal service, with almost all their transactions done in cash and not electronically.

MAP reveals that informal financial services provide a high adoption threshold which formal providers need to overcome if they want to capture the informal market. The extent of this barrier to the adoption of formal services is illustrated in **Figure 2** which shows that salaried and government workers, the highest income and most formalised of all market segments in Mozambique, make extensive use of informal financial services despite their unhindered access to banking products. As will be seen later, there is little evidence that financial infrastructure and service delivery in rural areas will lift formal financial services over the adoption threshold in the next 5 – 10 years under current conditions.

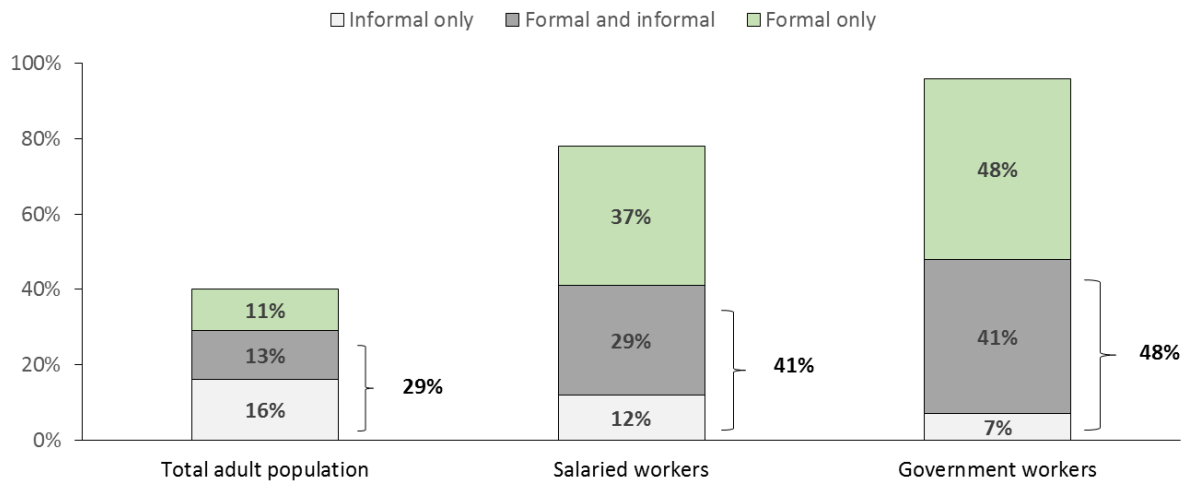

Figure 2: Overlap of formal and informal financial services across total adult population, salaried workers and government works

Source: Mozambique Finscope Consumer Survey 2014

To understand these dynamics better and explore alternative options to widen (give access to more people) and deepen (get those with access to use a portfolio of products) financial access, MAP disaggregated the adult population into discrete target markets based on main source of income.

The Mozambican Consumer

MAP identified six discrete target markets and developed a demographic and financial access profile for each (see **Figure 3**). The six target markets are:

- *Farmers*, i.e. those that derive their main income from agricultural activities or fishing, 88% of whom live in rural areas.
- *Dependents*, who rely on their households for money and sustenance or to pay their expenses. Those whose main income is remittances also fall in this category. Dependents are mostly women (67%) and mostly young, the biggest age category being 16 – 20.
- *Microenterprises* represent those who receive their primary income from their own business. Half of this target market (49%) is women.
- *Biscato*, the local term used for piece job workers, have a lower income than farmers, but a higher education level.
- *Salaried workers*, which include only private sector salaried employees to distinguish them from government workers whose average monthly income is almost double that of their private sector counterparts (MZN 8 000 vs MZN 15 000).
- *Government workers,* who have the highest incomes and best financial access of the entire population, but constitute the smallest target market at 4% of the total adult population. Together with the 5% salaried workers, the formally employed constitute only 9% of adults.

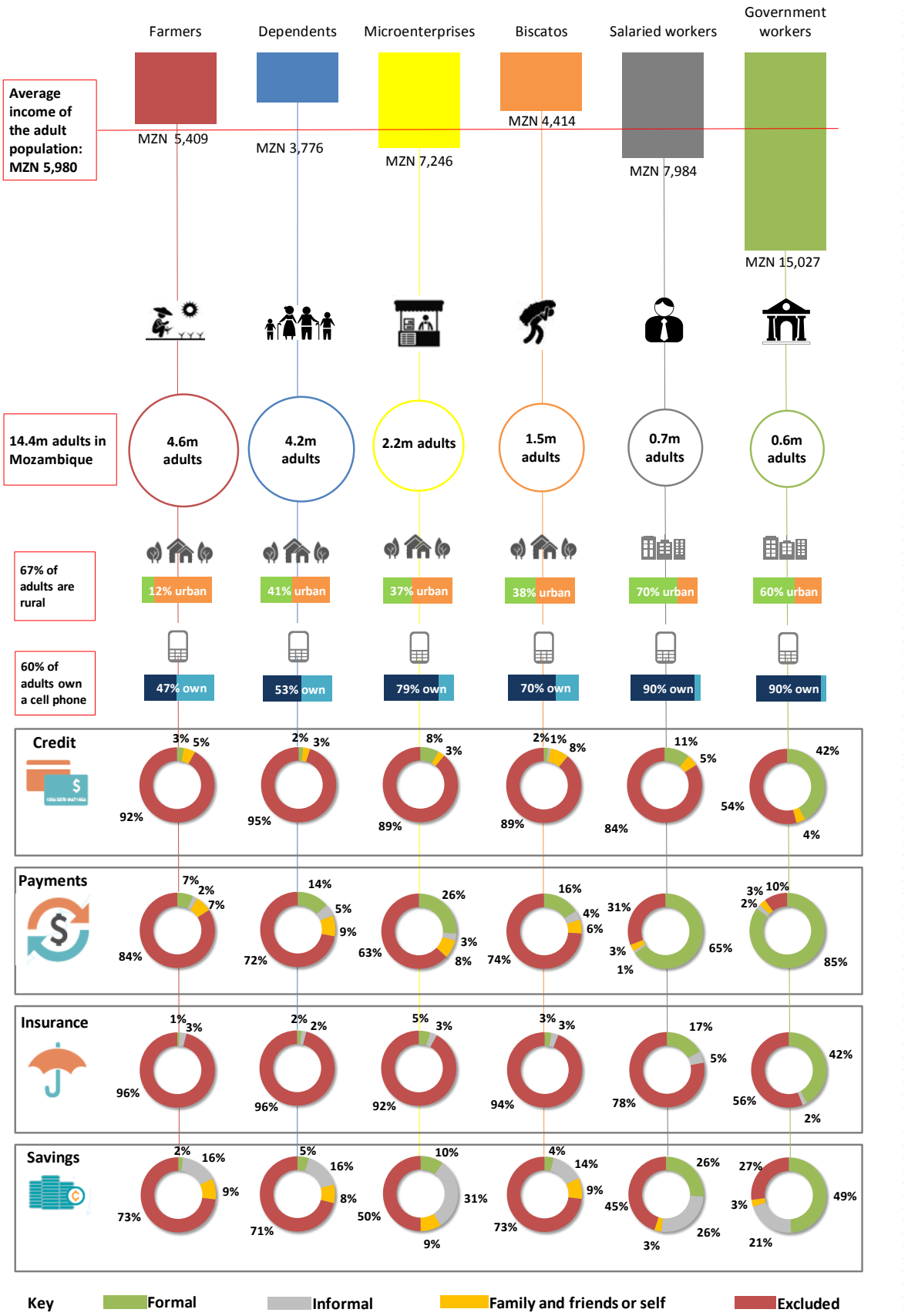

Figure 3: Target market infographic

Source: Mozambique Finscope Consumer Survey 2014

Farmers the largest target market. Unsurprisingly, farmers are the largest target market at 32% of the adult population. The surprising development, though, is that FinScope revealed that from 2009 to 2014, adults deriving their primary income from agriculture-related activities increased by 40%, well above the growth rate of the overall population over the same period. The only other target market that increased disproportionately since 2009 is government workers, who grew by 60%. This suggests that Mozambique's economic surge has failed to pull any significant numbers into formal employment outside of government. More people are being pushed into agriculture to survive where access to formal financial services is the lowest.

The farmers target market includes only those that derive their primary income from agricultural. However, more than 50% of all target markets indicated that they are involved in or connected to agriculture in one way or another, confirming that agriculture remains the lifeblood of the Mozambican economy. The link between the formally employed and agriculture is particularly strong, with payroll lenders reporting that a large proportion of their clients, which are exclusively government employees, use their credit facilities to buy agricultural inputs. The same goes for microfinance providers. A significant proportion of what is reflected in BdM statistics as personal loans is therefore in fact agricultural credit.

Three promising target markets. Government workers, salaried workers and microenterprises are the most promising target markets for improved financial inclusion in the foreseeable future. These three target markets report the highest current access to formal financial services, with almost 90% of government workers and 70% of salaried workers having access to formal services. MAP shows that at least half of adults included in the microenterprises target market should be categorised as survivalist entrepreneurs. Survivalist entrepreneurs are entrepreneurs out of necessity rather than choice with no option for a wage or salary income. This group of entrepreneurs report a similar financial access and usage profile to dependents or Biscato. The remainder of the microenterprise target market, considered aspirational, take up enterprise out of choice and report higher levels of financial services usage, similar to that of salaried and government workers. Further, the bulk of the adults in these three target markets (government workers, salaried workers and aspirational microenterprises) are located in urban areas within easier reach of formal providers.

These three target markets, which jointly comprise about 17% of Mozambique's population, merit priority attention not only because they are feasible to reach, but also because they provide a channel for sustenance and financial services to a significant portion of the rest of the population. For example, 57% of government workers remit money to someone elsewhere in Mozambique. At least one in three persons in these target markets have more than one income, implying that financial services, particularly personal credit, provided to them reach agriculture and microenterprises. More directly, the qualitative research revealed that many of the *agiotas*, or informal money lenders, are in fact formal employees who conduct informal money lending operations to earn additional income. The formally employed is thus a major financial services gateway to the other target markets.

Yet, these priority target markets are currently thinly served with financial services. Whereas more than 40% of government workers have access to credit, mainly due to the growth in payroll credit over the past five years, formal credit to salaried workers and aspirational SMEs is about 10%. Their usage of formal savings is even less and only government workers have any significant take-up of insurance.

What is the ability of the formal financial sector to reach these three core target markets and, beyond them, the other target markets of which more than 85% are currently excluded from formal financial services and more than 50% from formal and informal financial services?

Drivers of financial inclusion

MAP identified four drivers impacting the expansion of financial access to the majority of adult population:

1. *Citadel economy confines formal providers to urban areas*. A number of factors converge to make it difficult for formal financial providers to provide services much beyond the main urban areas. Although being addressed, the infrastructure deficit beyond urban areas remains acute. Only a quarter of rural Mozambicans live within 2 kilometres of any road in the classified road network. If it is hard for citizens to travel in rural areas, it is even harder for financial institutions to install and maintain basic financial infrastructure to serve these people. This is illustrated by the fact that 47% of all bank branches, 45% of ATMs and 60% of POS devices are concentrated in Maputo City and Maputo Province, with less than 5% of these contact points present in Cabo Delgado, Zambezia, and Niassa respectively. Even within these provinces access to financial services is concentrated in urban areas. **Figure 4** below illustrates this by comparing the percentage of adults living within 30 minutes of a bank branch to the number of adults considered financially included across and within provinces in Mozambique.

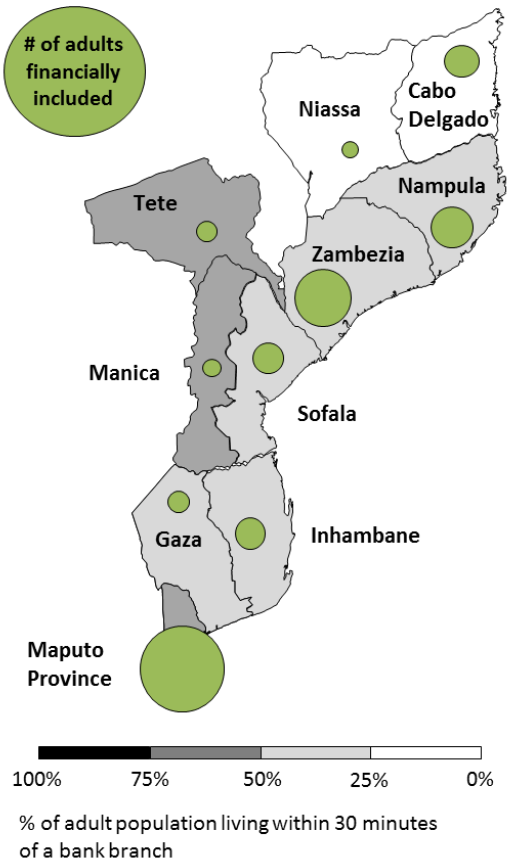

Figure 4: Percentage of adults living within 30 minutes of a bank branch compared to the number of adults financially included across and within provinces in Mozambique

Source: Mozambique Finscope Consumer Survey 2014

The citadel walls are reinforced by Mozambique's parallel legal system, with civil law governing the formal urban economy, and customary courts, recognised in the 2004 Constitution, prevalent in rural areas. The customary courts have jurisdiction in small value civil claims and are the *de facto* means of dispute resolution for most Mozambicans. Yet, financial transactions involving formally regulated institutions are almost exclusively contracted under civil law processes. These do not coincide with localised community customs and values. The result is that formal financial inclusion is concentrated in urban areas, while the customary courts underpin the healthy growth in informal financial services both in rural and urban areas. Engendering an understanding of legal pluralism in formal financial institutions presents a significant hurdle to increasing formal financial inclusion.

These two structural divides between those inside and those outside the citadel walls, are exacerbated by the way in which the economy has developed over the past two decades. With an average education level of 1.2 years, most rural Mozambicans simply do not possess the skills to take jobs in skills intensive megaprojects or the services sector developing in the larger cities. Available credit is also being sucked out of rural areas to megaprojects and urban areas, with only 3.5% of credit going to agriculture in 2013 compared to 20% in 2000. Since income is probably the largest single driver of usage of financial services, the income divide between rural and urban areas is mirrored in their demand for formal financial services. The level of under-development in rural areas finds expression in a very low demand for financial services. An unmet demand for formal financial services is normally articulated through the use of informal services. Yet in rural Mozambique more than 50% of the adult population do not even use informal financial services, cash payments excluded.

2. *A starved cash ecosystem*. The ability for an individual to connect with an electronic payments network, even if only to make a cash deposit or cash payment that is recorded in electronic value, provides the entry point for that individual to access formal financial services. If such cash to electronic value (and vice versa) access points, such as bank branches, bank agents, mobile money agents, ATMs or POS devices, are inaccessible or unable to fulfil their encashment function, it is virtually impossible to move a market to formal financial services. This barrier is acute in a market such as Mozambique, where the bulk of all transactions happen in cash and 66% of the population transacts exclusively in cash.

   MAP reveals that even the small number of employees that receive their salary in cash prefer to withdraw it immediately and conduct the rest of their transactions in cash. The international yardstick for the level of adoption of digital commerce in retail economies is the ratio of POS transactions to ATM transactions. Predominantly cash-based economies like India report around 7 POS transactions per ATM withdrawal, and the G20 countries around 16. The Mozambican figure is 0.36, reflecting an overwhelming preference for cash and very low adoption of digital services.

   Changing to digital payments will require some significant shifts. Mozambique does not have a real time, verifiable merchant payment system that is accessible and reliable enough to reduce payment risk at point of delivery. The retail payment systems that do

exist are not interoperable, making an already narrow footprint even narrower. The 1300 ATMs that do exist are not able to carry the load for current demand, particularly during paydays. For many people who have to travel far to an ATM or bank branch, receiving their salary electronically is a hardship rather than a blessing.

Cash that is available is sucked into urban areas, because electronic payments for bulk purchases are not available. For example, service stations pay for fuel deliveries in cash. These and other bulk cash payments syphon off much of the available cash, leaving rural areas cash starved. This pushes rural areas further below the minimum encashment floor required to support digital payments.

3. *Banking regulation undermines the extension of cash infrastructure*. *Aviso 5/2009* was intended to increase transparency and reduce fees by prohibiting banks from charging any fees on cash deposits or withdrawals at bank branches. However, because banks are unable to recover these encashment costs for ATMs, *Aviso 5/2009* has had the unintended consequence of dissuading banks from establishing encashment facilities and extending cash infrastructure in many rural and logistically difficult areas throughout Mozambique.

   Instead, *Aviso 5/2009* encourages branch-based transactions, which are the most expensive mode of banking. Further, because providers are prevented from charging certain fees, they must recover costs through different fees. This has resulted in misalignment in pricing of products and services. For example, banks cross-subsidise encashment with other higher margin fees such as statement and electronic banking *ad valorem* charges. This prevents banks from instituting a fee structure that would encourage a transition to digital transactions.

   This is reinforced by banking regulations which also stipulate strict, extensive and indiscriminate requirements for bank branches, which effectively preclude banks from exploring partnerships with alternative distribution entities. There is also no regulatory framework for remittances, e-money and cross-border payment services, which creates uncertainty for providers and discourages investment in products dependent on electronic payments.

4. *A capital constrained financial sector.* Bank capital is primarily tied up in high-earning opportunities, much of which indirectly relates to the megaprojects. The majority of banks, both large and small, must syndicate in order to finance fuel imports, the increased demand for which has been driven partly by the megaprojects. As foreign fuel purchases must be made in USD, banks must provide guarantees that are also denominated and ring-fenced in USD. Given the size and costs of fuel imports, this blocks off large amounts of capital from banks' balance sheets which cannot be put towards other activities, such as retail credit. Also attracting a lot of capital, credit is extended for high-value commercial or construction activities, many of which are ancillary to the megaprojects. Capital is further constrained by minimum reserve requirements for 8% of banks' daily liabilities, which must be deposited in cash, interest-free, with the central bank. With these factors absorbing and constraining capital, it is not surprising that the banking sector is neither geared towards nor focused on lower-value retail credit.

Despite significant advances in the financial services footprint and offering since the beginning of the century, these four forces conspire to place a ceiling on the ready extension of financial

access in Mozambique. However, there are medium and long term strategies to lift this ceiling.

Financial inclusion priorities

The long-term project

The long-term extension of financial access in Mozambique will closely track the long-term restructuring of the macro economy. As physical and digital infrastructure expands into rural areas, education is extended and the government succeeds in growing agriculture and economic sectors outside of the extractive industries, incomes beyond urban areas and megaprojects will start growing. This will increase the demand for financial services.

For the foreseeable future, financial access will thus remain hostage to the macro economy. This should not detract from the significant intermediate advances that can be made in the financial sector itself.

Intermediate advances

However, some significant advances in financial access can be made, building on the momentum of the past five years. These relate to particular constraints on the financial sector which, if lifted, will make it easier and more cost effective for financial institutions to provide retail services across all product categories:

1. *Facilitate interoperability in the retail payment system*. When the electronic payment system is as restricted as it is in Mozambique, the over-riding strategy must be to make that which you have go as far as you can. Mandated interoperability across all the retail payment networks, including mobile payments, will benefit all financial institutions and increase the shift to electronic transactions.
2. *Allow banks to price for cash.* Evidence across multiple MAP countries shows that low income clients are prepared to pay higher than normal fees for services that are convenient to them. The notion that low cost banking transactions serves to extend financial access is therefore misplaced. Financial access will be extended far quicker if banks are allowed to price for cash transactions. This will make it viable for them to extend their infrastructure which will improve convenience for clients. This will require the regulators to revisit *Aviso5/2009*.
3. *Improve liquidity of formal providers*. As long as much of the capital of banks are tied up in the financing of fuel imports and mandatory deposits with the central bank, the retail credit market is unlikely to grow. There are strong structural economic reasons for these current provisions and they cannot be changed overnight. However, a signal that they will be relaxed gradually will prepare the financial sector to start building a serious credit policy, which is not currently evident.
4. *Reduce client barriers seated in regulation.* The new KYC regulations in Mozambique opens the door for proportionality by eliminating the requirement for showing proof of address for occasional transactions below a defined threshold. However these simplified KYC measures are not available for ordinary bank relationships such as for deposits or credit. Applying such simplified KYC requirements to other types of bank products or accounts would reduce eligibility barriers and benefit more customers.
5. *Create sound regulatory frameworks for important product categories such as mobile money, cross-border remittances and microinsurance*. The lack of clear regulatory

frameworks for mobile money, cross-border remittance and microinsurance has created a gap in the market for these important products. Regulators need to create an appropriate space to incentivize providers to offer these services.

Normal business

Irrespective of any progress with the intermediate or long-term strategies, substantial advances in financial access can be made within the current framework. This should be based on an understanding of the behaviour of the different target markets and the powerful, but generally "hidden", dynamic of intermediated access. By serving those within the "citadel", financial providers are indirectly channelling credit and payment services to other target markets outside the "walls". Households in Mozambique are currently far better at distributing financial services than formal providers. These informal market dynamics must be leveraged for the growth of the economy.

Much can therefore be gained by extending access to the three priority target markets – government employees, salaried workers and aspirational SMEs – and serving them with better products. Government policy and private providers should focus on these gains that are within reach, rather than the long reach rural strategies which will require shifts in the macro economy and infrastructure before they can be cost effectively pursued.

1. Introduction

1.1. What is MAP?

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[3] (UNCDF), FinMark Trust[4] and the Centre for Financial Regulation and Inclusion[5] (Cenfri). In each country, it aligns stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country[6].

Box 1. What is financial inclusion?

"*Financial inclusion means that households and businesses have access to and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably, in a well regulated environment*."

- CGAP working definition[7]

MAP incorporates a comprehensive analysis of the country context as well as of the demand and supply of financial services and the regulatory environment in order to identify key barriers to and opportunities for increased financial inclusion across four core product markets: savings, credit, payments and insurance.

The customer at the core. What sets MAP apart from other scoping exercises is the fact that the demand-side perspective is the point of departure. Furthermore, it does not just pursue financial inclusion for the sake of financial inclusion, but seeks to improve welfare for the population at large. The following diagram illustrates the MAP logic:

[3] **UNCDF** (www.uncdf.org) is the UN's capital investment agency for the world's least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

[4] **FinMark Trust** (www.finmark.org.za) was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'.

5 **Cenfri** (www.cenfri.org) is a non-profit think-tank based in Cape Town. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

[6] For more information on MAP visit any of the partner websites.

[7] http://www.cgap.org/topics/financial-inclusion

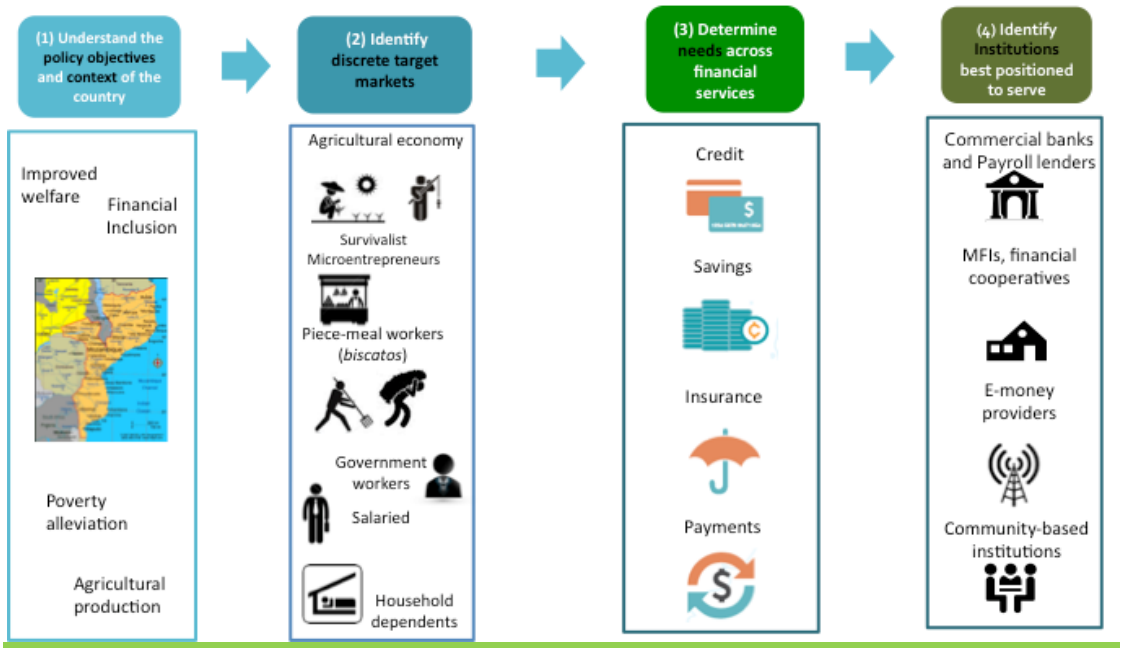

Figure 5. The MAP logic

Source: own representation

As **Figure 5** illustrates, the MAP methodology starts by identifying the different needs in the target market. The adult population is segmented into groups of individuals with similar profiles and needs that could form discrete target markets for financial services. With the target markets in mind, the rest of the analysis then seeks to identify which institutions currently serve which parts of the population offering which services, as well as what the potential and gaps are for enhanced provision. The analysis is informed by the context of the country and ultimately seeks to meet the policy objective of financial inclusion as a tool to improve welfare and poverty alleviation.

Real economy linkages. The MAP approach sees financial inclusion as a means to an end – the end being an impact on the *real economy*, namely those activities that contribute to GDP, as well as, ultimately, enhanced welfare. Economic theory suggests that financial intermediation can play a role in mobilising savings for investment purposes (including credit to finance small and corporate business development) and in reducing transaction costs and increasing efficiency in the economy. Thus, at the macroeconomic level, it has the ability to fuel real economy impacts by growing businesses, thereby contributing to employment generation and growth. Financial services can also facilitate access to core services such as health or education that will in turn impact growth indirectly through the impact on productivity of the economically active population, as well as directly through the service sectors that it triggers. At the microeconomic or household level, financial inclusion can furthermore impact people's welfare directly by reducing their transaction costs, enabling them to more efficiently manage risks, and supporting the accumulation of wealth over time.

It goes both ways, however. As the analysis will show, the real economy also impacts the scope for financial inclusion in that it determines the realities within which the target market functions.

Rationale for MAP Mozambique

A strong public commitment to financial inclusion. The Government of Mozambique (GoM) has been vocal about its willingness to work to build an inclusive financial sector. The country has an official Mozambique Financial Sector Development Strategy (MFSDS, 2012-2013)[8], of which financial inclusion is a strong pillar. Furthermore, there are numerous examples of the GoM articulating their commitment with public statements captured in press articles. Financial inclusion as set out in the MFSDS is a multi-ministerial responsibility. The Strategy incorporates core financial sector ministries such as the Ministry of Finance (MoF), Ministry of State Administration (MAE) and the Ministry of Planning and Development (MPD) as well as relevant other ministries such as the Ministry of Agriculture. The *Banco de Mocambique* (BdM) is also committed to inclusive financial sector development. In practice, much of the impetus for financial inclusion lies with the MPD, with a strong role for *Banco de Mocambique* as the implementing arm. While the Ministry of Agriculture has primary responsibility for the agricultural sector, the MPD also plays a role here as demonstrated by their support for the Fundo Distrital de Desenvolvimento initiative, discussed further in **Section 6.2. Market for credit**.

A history of financial inclusion-relevant initiatives. The MFSDS was developed based on FIRST Initiative-sponsored field work in 2011. It draws on a history of financial inclusion relevant initiatives in Mozambique by both the public and donor sectors. These include:

- The Financial Sector Assessment Program (FSAP) completed by the World Bank and International Monetary Fund (IMF) in 2009;
- National Campaign for Rural Savings (2005);
- Rural "Bancarization" Strategy (2007);
- Rural Development Strategy (2007);
- World Bank Country Economic Memorandum (2009);
- Investment Climate Assessment (2009);
- The Rural Finance Strategy (2011);
- The Government's Medium Term Debt Management Strategy (2012); and
- The Banco de Moçambique's Strategic Plan.

MFSDS 2012-2013 sets financial inclusion targets. According to the MFSDS, there are two major challenges to increasing access to finance: (i) economy-wide structural impediments to financial intermediation that limit the number of creditworthy clients and/or increase the costs and risks of offering financial services; and (ii) limited competition in the banking sector and high transaction costs that reduce incentives to intermediate deposits into loans while also contributing to higher borrowing costs. To overcome these challenges, its overall objective is set as:

> *"The goal of the MFSDS is to facilitate the development of a sound, diverse, and competitive financial sector which provides citizens and businesses – particularly SMEs – with convenient access to a range of appropriate, high quality, financial services at affordable prices.*
>
> *By end-2020 no less than 35 percent of the adult working age population of Mozambique should have physical or electronic access to at least one financial service provided by a regulated financial institution."*

[8] Available at http://www.mf.gov.mz/c/document_library/get_file?p_l_id=11402&folderId=12905&name=DLFE-6001.pdf.

Broad menu of strategic focus areas. These goals are to be achieved through a menu of implementation strategies reaching across areas such as financial sector infrastructure, microfinance and savings sector development, as well as the promotion of rural financial services. Specific action areas noted include building the micro, small and medium enterprise (MSME) sector, establishing better linkages between rural finance and non-financial activities, enhancement of financial literacy and consumer protection, developing the payments system infrastructure, expanding capital markets, and increasing capacity for implementation of public private partnerships. There is an emphasis on leveraging and supporting the participation of the private sector in the provision of financial services.

BdM engagements informed by supply-side survey. The BdM undertook flagship research on inclusive financial sector development in *Desafios da Inclusão Financeira em Moçambique: Uma abordagem do lado da oferta* (Challenges to Financial Inclusion in Mozambique: A supply side survey), February 2013.[9] Salient aspects of the BdM Survey indicate that the financial sector for Mozambique should have "at least one distribution channel of financial services, principally a bank branch (available in the main administrative units such as districts and cities)", should "serve all the segments of the population" and should provide "effective use of these financial services (such as loans, deposits, and fund transfers)".[10]

Move towards National Financial Inclusion Strategy. The World Bank Group launched the global Financial Inclusion Support Framework (FISF) in April 2013 to offer multi-year support in line with countries' strategies and targets. The types of support provided include design of financial inclusion strategy/targets and coordination mechanisms. After the expiry of the MFSDS, the FISF is being implemented in Mozambique in order to design and implement a National Financial Inclusion Strategy Action Plan, Coordination Structure, and Monitoring & Evaluation plan. It will focus on innovations in retail payments, financial infrastructure, MSME and rural finance, as well as financial consumer protection and financial literacy.[11]

Spotlight on Mozambique in 2015. In September 2015, the annual Alliance for Financial Inclusion (AFI) Global Policy Forum (GPF) will be hosted in Maputo. AFI is a global network of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for the poor. Its member institutions are central banks and other financial regulatory institutions from more than 90 developing countries. The GPF is the keystone annual event to bring together the membership. Each year it is co-hosted by a different member institution in a different region of the world. The GPF is the most important and comprehensive forum for regulatory institutions with an interest in the promotion of financial inclusion policy[12]. The hosting of the GPF in Mozambique – and the corresponding attention that the country and its policies will attract – therefore significantly strengthens the policy momentum for financial inclusion in Mozambique.

Establishment of FSD Mozambique. Another important recent development in the financial inclusion stakeholder landscape is the establishment of Financial Sector Deepening Mozambique (FSDMoç) in 2014. According to the FSD Mozambique draft strategy, it seeks to achieve sustainable improvements in the livelihoods of people in Mozambique through reduced vulnerability to shocks, increased incomes and employment, as well as a deeper and

[9] Available at http://www.bancomoc.mz/Files/GPI/Desafios_Mocambique.pdf
[10] BdM Survey, February 2013
[11] Source: World Bank, 2014. The Financial Inclusion Support Framework in Mozambique. Presentation. February 2014
[12] Source: www.afi-global.org

broader financial sector in Mozambique. The key outcomes listed include:

- A deeper and broader financial sector in Mozambique.
- Adequate financial infrastructure in place to support financial sector development.
- Relevant information about the supply and demand for financial services available and used.
- Improved capacity of financial institutions to develop and offer appropriate financial services to men, women and MSMEs.
- Improved financial capability among customers with emphasis on low-income people and MSMEs.

What value does MAP add? The MAP initiative and the roadmap recommendations that will stem from it has an important role to play in this complex financial inclusion stakeholder landscape in at least three ways:

- **A holistic evidence base**. MAP is set aside from other studies and initiatives by the comprehensive picture of financial inclusion drivers that it compiles across the supply-side, demand-side, regulatory and context realms. Thus this diagnostic report provides a granular evidence base necessary to "connect the dots" in the complex Mozambican landscape, which can serve to anchor and coordinate broader strategic initiatives.
- **Disaggregation**. A key thrust of MAP, as will be discussed in **Section 4: Target market analysis**, is the focus on defining distinct target market segments and analysing their financial behaviour and needs in detail. This level of disaggregation enables critical evaluation of supply-side features, trends and regulatory impacts vis-à-vis consumer needs and realities.
- **Focus**. The level of disaggregation introduced by MAP allows targeted prioritisation of strategic actions likely to have the biggest impact on consumer welfare and the real economy. This brings important focus to the menu of strategic activities identified in the MFSDS and will play an important role to inform the ongoing National Financial Inclusion Strategy process.

MAP is also positioned to fulfil a key role in supporting FSDMoç in its strategy coordination role in order to achieve its key outcomes. Thus MAP does not have a standalone existence in Mozambique, but speaks to and strengthens the FSDMoç agenda in terms of key stakeholders to engage and core content areas to focus on.

1.2. Methodology

The analysis in this report draws on five primary sources[13]:

- **Quantitative demand-side analysis** of the FinScope (2014) and FinScope MSME (2012) surveys. FinScope is a comprehensive, nationally representative consumer survey implemented by FinMark Trust in partnership with local governments and stakeholders to gauge consumer realities, perceptions, needs and current usage of various types of formal

[13] Information and data reflect that which was available at the time of research.

and informal financial services[14]. To date, FinScope has been rolled out in close to 20 countries in Africa and Asia.

- **Qualitative demand-side research** in the form of a range of individual interviews conducted in various provinces in 2013 (see **Section 4: Target market analysis** for more on the methodology followed and sample). The qualitative research seeks to gain deeper, descriptive insights into the way that society functions financially, as well as people's household livelihood and budget realities, needs, perceptions and engagement with financial services.

- **In-country consultations**, including stakeholder interviews with a range of financial service providers, public and NGO stakeholders at the end of 2013 and in early 2014.

- **An analysis of financial sector data** obtained from the Banco de Mozambique (BdM), Institute of Insurance Supervision of Mozambique (ISSM) and various financial institutions, as well as a **scan of entry-level products** in the market based on information compiled in 2014.

- Extensive **desktop research**, including of various relevant regulatory instruments and secondary reports across the various areas of analysis.

1.3. Structure

In order to impact on the real economy and improve welfare, a suite of appropriate financial services that are accessible and provide value to clients are needed. The scope for financial inclusion is conditioned by the country context and the regulatory environment within which the financial sector operates. After taking stock of the context and regulatory framework, we consider the needs and realities of various target market segments, as well as the potential, gaps and barriers for financial services across the four product markets to meet those needs. The recommendations are then informed by an assessment of the potential of various financial services to meet the key target market needs.

To build up the storyline in this way, the rest of this document is structured as follows:

- Section 2 outlines the **country context** relating to the political economy, macroeconomic, socioeconomic and demographic and infrastructure context. This provides an anchor and lens for understanding the trends witnessed across the rest of the analysis in order to conclude on key cross-cutting drivers of financial inclusion.

- Section 3 outlines the **regulatory framework** as an important determinant of the broader enabling environment for financial inclusion.

- Section 4 is dedicated to an analysis of the **target market** for financial inclusion in Mozambique. It unpacks current usage at large, before delving into the needs and profiles of a number of core target market segments.

[14] For more information, see www.finscope.co.za

- From Section 5 onwards, the focus shifts to the supply of financial services in Mozambique. Section 5 provides an **overview of the financial sector** by considering the landscape of financial institutions and the distribution infrastructure, in turn.

- Section 6 completes the analysis by taking an in-depth look at four core **product markets**: **payments**, **credit**, **savings** and **insurance**. For each, an overview is provided of current usage, use cases, providers, products, access barriers and regulatory issues in order to conclude on key gaps and opportunities in the particular product market.

- Finally, Section 7 draws together the various threads of the analysis to conclude on the **cross-cutting drivers of financial inclusion**, the **key financial inclusion needs** and the **implied strategic priorities**.

To facilitate ease of reading, each section starts off with a summary box highlighting the key findings or insights from the particular section.

Box 2. What is a use case?

A "use case" is simply an identified need or application for a particular service among the target market, the reason why a particular product is demanded. For each product market, there will be several use cases. The use cases for a particular product will differ across countries, depending on the context and target market features. For example, "to pay bills" or "to send money to rural family members" can both be a use case for payments, while "to provide for education expenses" can be a use case for either savings or credit.

The use cases identified in **Section 6: Product Markets** are intended to focus the discussion on the actual or potential needs expressed in the market and the prospective roles that a particular product could fulfil. The use cases for each product market are identified based on the qualitative and quantitative demand-side research, along with an overview of products on the market and insights from provider interviews.

2. Context drivers of market development

The financial sector is an essential part of the broader economic and social context of a country. The particular country context shapes market outcomes, demand-side realities and functioning of the financial sector. This section unpacks the key contextual drivers of financial sector development across the **political economy**, **macroeconomic**, **socio-economic and demographic context**, as well as relating to the current **infrastructure context**. The context drivers that are most relevant to the rest of the analysis are summarised in the box below.

Key issues: context drivers

6. Colonial and civil war legacy shape market and socio-economic outcomes on various fronts.
7. Concentrated economy, with investment focus on megaprojects in the primary sector, is compounded by very low skills levels to create a structural mismatch in the labour market.
8. Agriculture remains the mainstay of many, but most farmers are not formally linked into strong value chains. There are elements of an agrarian society, with non-monetised income playing an important role in livelihoods.
9. A severe infrastructure deficit pervades all other themes, challenging economic development and financial sector reach.

10. Result: recent economic growth not reaching the majority of the target markets; poverty remains high, with structural barriers to overcome before broad-based welfare enhancements can be achieved.

2.1. Political economy context

The political economy context and history is a strong determinant of the overall context that in one way or another shapes all of the other context elements and drivers discussed in the sub-sections to follow.

Colonial and civil war legacy defines current landscape. The Portuguese colonial legacy still pervades societal and economic structures. The colonial emphasis was on central control and development, with little investment in infrastructure or systems beyond main urban centres. This was the root of major infrastructure challenges (see the discussion in **Section 2.5**) which were then entrenched by the civil war that broke out soon after independence and raged from 1977 to 1992. In 1992 a General Peace Agreement was signed, followed by the first multi-party elections in 1994. In many regards, the impacts of civil war are still felt. Notably, much of the economic infrastructure, as well as physical infrastructure such as roads, bridges, schools and health centres, was destroyed[15]. This infrastructure deficit continues to shape market and socio-economic dynamics in the country.

Post-war policy focus on reconstruction and poverty reduction. The initial post-war economic policy focused on reconstruction and poverty reduction through growth. More recently, the government has endorsed a number of mega-projects in the energy and transport sector (see the discussion in **Section 2.2** below) in order to promote poverty reduction, create jobs and to alleviate dependence on foreign aid. However, as discussed below, these megaprojects are mostly extractive and structural challenges remain in terms of population-wide job creation and pervasive infrastructure development beyond the key development corridors.

Interplay of Portuguese and customary legal system. On the 30th of November 1990 Mozambique adopted a new constitution that changed from a centrally controlled political economy to a market-oriented one. More than two decades later, the country still faces the challenge of moving away from the colonial legacy of centralised control over policy decisions and resource allocation. A notable example is the legal system, where the ordinance and civil codes introduced under the colonial system still shape the civil law system. At the same time, the formal law during the colonial period was implanted with customary legal systems and these indigenously based systems continued to function outside of the formal civil law system. After independence in 1992, the re-establishment of the customary courts was formally recognised in the 2004 Constitution (article 223 no.2) [16]. To this day, we see a parallel legal system between the "formal", urban economy, where civil law prevails, and the customary courts that are most prevalent in the rural areas and provide day-to-day justice for most Mozambicans.

[15] http://repositorium.sdum.uminho.pt/bitstream/1822/11738/1/Cabecinhas%20%26%20Feij%C3%B3%202010%20IJCV.pdf
[16] [16] De Sousa Santos, Boaventura, "The Heterogenous State and the Legal Pluralism in Mozambique", Law & Society Review, Vol.40, No. 1:39-76,2006

2.2. Macroeconomic context

Positive, stable economic outlook. Since the end of the civil war, Mozambique has enjoyed political stability, which has created an environment favourable to economic growth. Real annual GDP growth averaged 7.5% from 2005 to 2014[17]. Since the early 1990s, the Bank of Mozambique (BdM) has for the most part managed to maintain relative internal and external price stability. The 2014 end of year average inflation rate was 4.2%, which was well below the 7.5% target[18]. Nevertheless, the economy remains small in absolute size: Mozambique's nominal GDP was USD 15.6 billion in 2013[19]. Put in regional perspective, this compares poorly to countries such as Zambia (USD 26.8 billion), Tanzania (USD 33.2 billion) and South Africa (USD 350 billion).

Steady GDP per capita growth. At 4.8% GDP per capita annual growth, Mozambique is outperforming most of its neighbouring countries, as well as the global average growth[20]. However, in terms of nominal per capita income Mozambique achieved a low USD 1 100 GNI per capita (PPP) in 2013[21], compared to a global average of USD 14 337 GNI per capita (PPP). It has the lowest income per capita compared to regional peers such as Zambia ($3 820 GNI per capita), Tanzania ($1 760 GNI per capita) and South Africa ($12 240 GNI per capita)[22].

Narrow economic base. Economic activity is driven by a small number of significant economic agents. The *Insitituto Estudos Socias e Economicos* (IESE) reports[23] that a mere twenty companies provide 75% of Mozambique's economic growth. Growth is largely driven by Mozambique's main exports from megaprojects in aluminium, coal, gas and gold[24]. Eighty-five percent of exports is composed of only four products.

[17] http://www.africaneconomicoutlook.org/en/statistics/table-2-real-gdp-growth-rates-2003-2013/
[18] http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Mozambique_EN.pdf
[19] http://www.worldbank.org/en/country/mozambique
[20] Global average growth was approximately 1.1% in 2013.
[21] The implication of using GNI in lieu of GDP is that GDP focuses on the geographic location of production, whilst GNI focuses on the citizenship of the final income recipient. In Mozambique, given the large role that megaprojects play, GDP might be higher than GNI as many of the profits of the megaprojects are repatriated to persons outside of Mozambique. GDP therefor may paint an optimistic picture where GNI paints a more realistic picture reflective of the reality that Mozambicans face.
[22] http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD
[23] http://www.iese.ac.mz/lib/noticias/2013/Ghana_FES_CNCB.pdf
[24] Such as BHP Billiton's Mozal Aluminium smelters, Moatize Coal project, sugar industry, gold mine. It is estimated that the mega projects in total accounts to 4% of the GDP growth (Paul Nice Managing Director of Barclays Mozambique in a recent interview with Africa investor. http://www.africainvestor.com/article.asp?id=4270)

Box 3: Megaprojects as a source of growth

Megaprojects are defined as "large, generally foreign-owned, and capital-intensive enclave activities that rely on extracted resources and/or imported intermediate goods, and export almost all of their production" (IMF, 2013) [25].

In 2005, there were three megaprojects in Mozambique: in gas, aluminium and hydroelectric power. In 2013, that number had increased to six active projects, with several new projects about to go online. One of these, in Cabo Delgado, is expected to be the second largest liquefied natural gas plant in the world. The initial project investment is intended to process natural gas as Liquefied Natural Gas (LNG) for export markets from as early as 2018. In the mining sector, the large and high quality coal reserves, mostly in Tete province, could set Mozambique next to the largest coal exporters globally. Other megaprojects include iron ore and heavy sands. However, mining development will depend on the level of associated infrastructure development, which presently is a major bottleneck to production (see the discussion on infrastructure in **Section 2.5** below).[26].

The following diagram indicates the geographical spread of existing and new megaprojects:

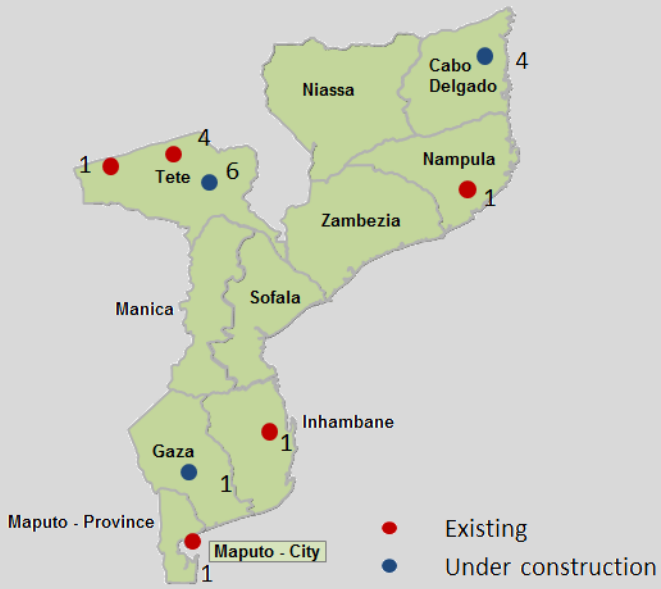

Figure 6: number and spread of megaprojects

Source: Authors' own, based on data in IMF (2014)

Dependence on fuel imports. The in-country consultations revealed that Mozambique is heavily dependent on fuel imports as it does not have its own fuel refineries. The statutory petroleum company, Petromoc, relies on the commercial banking sector for the foreign exchange shortfall as its regional sales are limited and do not provide sufficient foreign exchange to meet requirements for fuel imports. The growth in megaproject investments in the country have added to the nation's fuel demands.

Strong, but volatile economic role for agriculture. As seen in **Figure 7**, the contribution of each economic sector to GDP changed significantly between 2009 (inner doughnut ring) and 2013 (outer doughnut ring), with agriculture having decreased in importance to 29%. This seems to

[25] http://www.speed-program.com/wp-content/uploads/2014/06/2014-SPEED-Report-007-MOZAMBICAN-LABOR-MARKETS-IN-THE-FACE-OF-A-NATURAL-RESOURCE-BOOM-What-Potential-Impacts-of-Dutch-Disease-EN.pdf
[26] http://www.imf.org/external/pubs/ft/dp/2014/afr1404.pdf

have given way to a rise of the financial, real estate and business sectors, which expanded from 2% of GDP in 2006 to 4% in 2013. However, according to latest figures released by the *Banco de Mocambique* (BdM), the share of agriculture in 2013 fell back to 23%, though partly due to the rise in economic output from the megaprojects[27].

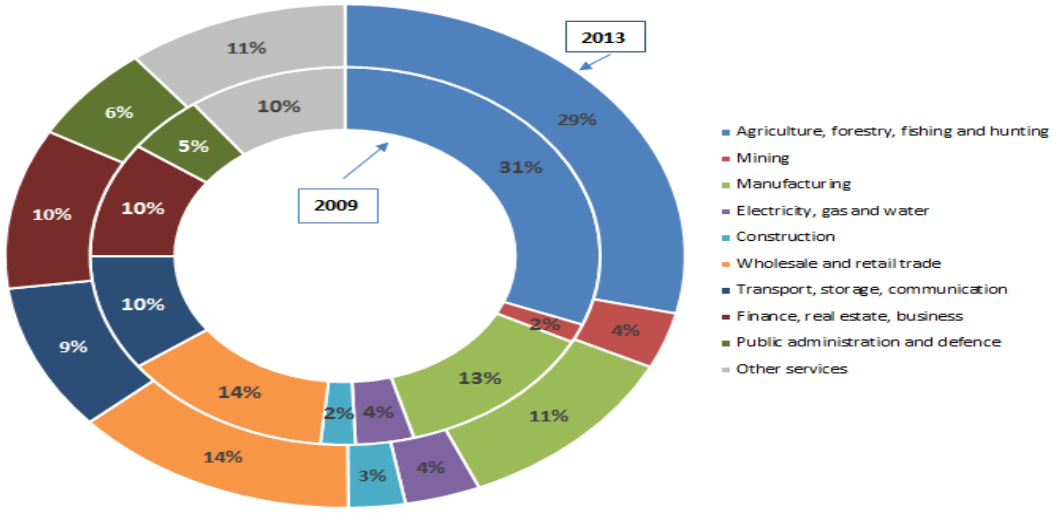

Figure 7: Economic sector contribution to GDP (%) in 2009 and 2013

Source: African Economic Outlook (http://www.africaneconomicoutlook.org/en/statistics/)

Investment channelled mainly to natural resource extractive business. Mozambique is one of the top three destinations for foreign investment in Africa. An estimated USD 32 billion had been dedicated to infrastructure projects in 2014 alone[28]. Most of the infrastructure development post-civil war has been driven by resource-led growth. Over the last decade about 80% of all private investment has been directly or indirectly allocated to mining and energy, while only 1% has gone into food production for the domestic market[29]. The diversification of economic activity, along with general investment in human capital, infrastructure and non-megaprojects have all been identified as important factors to foster inclusive growth[30]. Of particular importance is the development of the agricultural sector and value chains (see the dedicated discussion on agriculture in **Section 2.3** below).

Job creation a key challenge to broad-based growth. The overall unemployment rate according to the African Development Bank (AfDB, 2014) is 27%[31]. The INE Household Budget Survey of 2008 indicated that 81.5% of the employed labour force were engaged in agriculture and another 8.1% were self-employed outside of this sector. Thus only about 10% of those deemed to be employed were formally employed[32]. The megaprojects referred to above

[27] BdM Annual Report, 2013. Another source (the World Development Indicators), puts the 2013 share at 29%.
[28] http://www.macauhub.com.mo/en/2014/07/28/mozambique-receives-funding-of-us32-billion-for-infrastructure/
[29] http://www.iese.ac.mz/lib/noticias/2013/Ghana_FES_CNCB.pdf
[30] http://www.speed-program.com/wp-content/uploads/2014/07/2014-SPEED-Report-Labor-Competitiveness-EN.pdf
[31] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Mozambique%20Full%20PDF%20Country%20Note.pdf
[32] As will be discussed in Section 3: Regulatory and Policy Environment

Policy environment

Twenty four years of policy development. Since 1991, with the winding down of the civil war and the beginning of the liberalisation of the Mozambican economy, there has been ongoing technical input and assistance from international organisations and key donor countries that have jointly with the Mozambican Government crafted key policies and policy-based operational interventions aimed at the development of the financial services industry. Over the past twenty years, there has been very close alignment between the various policy instruments, initiatives and directions on the one hand, and material changes in the regulatory framework on the other. This indicates that policy statements and particularly policy instruments are not merely statements of intent or direction but act more as reform implementation schedules. It therefore becomes important to analyse current policy instruments to understand the intended blueprint of the financial regulatory environment in the short to medium term.

Financial inclusion incorporated in official policy. Financial inclusion concepts are entrenched in official government policy. Therefore, regulatory actions in pursuit of financial inclusion will mostly be consistent with current government policy, to the extent that any action is consistent with the particular interpretation of financial inclusion elements within official policy.

First Programmatic Financial Sector Development Policy Operation (FSDPO I) 2014-15

The most recent policy instrument consists of three pillars:

1. Financial Stability;
   - *Key performance Indicators*:
     i. Percentage of banks classifying their Non-Performing Loans (NPLs) according to the new regulation.
     ii. Percentage of banks implementing the new risk management guidelines.
     iii. Percentage of deposits balances and accounts covered by the Deposit Guarantee Fund (DGF).
     iv. Criminalization of terrorism financing.
2. Financial Inclusion;
   - *Key performance Indicators*:
     i. Number of e-money accounts.
     ii. Percentage of the population with access to formal banking services, including “formal-other”.
     iii. Call for proposals from service providers to apply for a private credit bureau license or operate the bureau on behalf of BdM.
     iv. Percentage of banks disclosing to consumers the effective cost of banking services.
     v. Number of days to clear a cheque.

vi. Percentage of transactions settled through the Real Time Gross Settlement System (RTGS).

3. Long-Term Financial Markets.

- *Key performance Indicators*:

  i. Number of short and medium-term bonds issued and reopened in the domestic market through competitive auctions.

  ii. Level of dematerialization and immobilization of all medium and long-term debt securities listed in Central Securities Depository (CSD).

Comprehensive framework fits the Mozambican context. It could be argued that the three-pillar policy approach does not have a particular focus and spreads resources widely over many fields, but in Mozambique, where development requirements are so broad and where the time frame is not short-term, it makes sense to tackle all three pillars, provided the initiatives are well co-ordinated.

No policy focus on informal services. Access to non-bank formal services has received some policy emphasis, but the observed growth in numbers of people being served by informal services is not effectively dealt with in policy objectives.

1.1. Regulatory framework

1.1.1. Court system

Parallel legal system. As briefly discussed in **Section 2: Context drivers of market development**, the Mozambique legal system has been strongly moulded by both customary law and Portuguese Law, the latter of which was introduced during the colonial era. Portuguese law is a civil law system with significant continental European influences (Spanish, French and German). The Portuguese ordinances and civil codes that were introduced into Mozambique resembled those introduced across the Portuguese colonial empire. There is no *stare decisis* doctrine nor common law tradition and therefore there is a high level of dependence on effective and timely legislation and impartial and skilled judicial officers. The civil law cannot take cognisance of traditional or customary practices unless explicitly enacted or promulgated.

During the colonial era, Portuguese civil law formally supplanted customary legal systems, but the indigenous or customary based systems continued to function outside of the formal legal system. After independence, much of the original Portuguese civil law was restructured in a process commonly referred to as “the breaking up of the colonial state”. The restructuring process created space for community courts, which in time became aligned to traditional leaders applying indigenous law. This enabled customary courts to re-establish to the point where an official framework was legislated in 1992, followed by formal recognition in the Mozambique Constitution of 2004 (Article 223 no. 2).

The diagram below depicts the way in which the two systems (civil law above the line, customary law below the line) run in parallel:

Figure 12: Graphical representation of the parallel legal system

Source: Authors' own

Community courts provide justice and recourse at local level. Today, community courts are very widespread. Community courts are formally recognised centres of justice with duly appointed presiding officers. They deal predominantly with smaller value civil claims and petty crimes with penalties of up to 30 days imprisonment. As stated above, there is no common law tradition in Mozambique. The implication for the community courts is that the decisions of community courts cannot set legal precedents and therefore the impact of any decision is limited to the parties to the dispute. Nevertheless, due to relative informality, cost effectiveness, locality and alignment with local ethnic, religious or customary practice, community courts have become the *de facto* source of justice and dispute resolution for vast numbers of Mozambicans. The community courts, thus, strike a balance between access to justice, moral ethnic legitimacy and substantive fairness.

Formal sector operates only in civil court system. Despite the prevalence of community courts, financial transactions that touch formally regulated institutions are almost always contracted in terms of civil law processes and rely predominantly upon civil court enforcement which is largely urban based. Informal and interpersonal financial transactions are contracted in either civil law or equivalent customary legal principles, or both, and are adjudicated in either provincial civil courts or community courts as agreed by the parties, provided the transaction value is within the applicable court's jurisdiction.

High costs and barriers to formal recourse. Formal civil procedure tends to be centralised, time consuming and costly, despite the creation of specialised commercial courts. The implication is that when Mozambicans interact with formal financial services, they are put in a position where they are at a disproportionate disadvantage in that they are required to resolve formal contractual disputes in courts that would generally require high transport costs as well as other high transaction costs due to court and related legal or administrative fees. Typical cost percentage per claim is 119% excluding transport and legal enforcement on average takes 760 days.

Resultant contract enforcement challenges create consumer protection concerns. During discussions in the financial services industry, it became apparent that due to the difficult enforcement processes, some financial services institutions require borrowers to sign promissory notes in blank as a means of shortening legal proceedings by utilising the abbreviated liquid claim process. This practice represents a material risk and obstacle to a borrower, requiring the utmost trust that a credit institution would not abuse an instrument signed in blank. The extrajudicial nature of the shortened legal collection process represents a further risk to less informed consumers as there is limited opportunity to enter any defence to an action based on promissory notes. Judicial oversight on these types of matters only occurs at the point of issuing a writ of execution in respect of the debtor's property.

Expanding formal financial inclusion will put further strain on civil court system. As formalised financial services expand to reach previously excluded people, there is likely to be a reduction in transaction values coupled with logistical expansion, resulting in a growing proportion of low-value civil law contracts dependent on civil court enforcement in outlying areas. Legal and collection costs can easily eclipse the value of collectables, thereby rendering lower value

loans uncollectable to a significant degree. Collection agency costs typically range from 25% to 35% of the principle value of urban SME loans and escalate further for personal loans, depending on the age, value and location. The implications of increased numbers and a wider distribution of lower-value loans with limited and costly enforcement facilities would likely be a higher interest margin requirement, higher personal credit criteria and higher minimum loan values to accommodate collection and legal charges through a legislated form of the *in duplum* rule, limiting the amount claimable from the debtor to the principal debt plus limited arrears and some legal and collection costs not exceeding a proportion of the principal debt.

Financial inclusion implications: split between urban, formal and rural, informal markets. With regards to financial inclusion, the main implications of Mozambique's pluralistic legal system is that the majority of low-income individuals access judicial remedies through community courts, while formal financial contracts are intended to be adjudicated in civil courts. This creates a divide between predominantly urban-based formal financial services and growing informal community based financial services and traditional forms of wealth intermediation. Practically the implications of such polarisation are that formal financial inclusion is concentrated in urban areas and the different customary and religious courts underpin a healthy growth in informal financial services both in rural and urban areas where either:

- The utility of formal financial services and formal legal practice does not coincide with localised community customs and values;
- There is no current effective access to civil law processes that underpin formalised financial services; or
- There is little appetitive on the part of financial service providers to intermediate in local economies due to the availability, cost or absence of formal legal enforcement coupled with low concentrations of monetised wealth.

Access to civil courts and the reliance on more local community courts are therefore two important factors that underpin the rise in informal financial services that are more in line with the geographic location and local customs of the people they serve. The role of informal financial services will be a recurring theme across the rest of the MAP analysis.

Potential for leveraging community-level justice also for formal financial services. The pluralistic legal framework presents opportunities to the State and financial services industry to appropriately integrate lower-value financial service matters, including contract enforcement and consumer recourse, within localised community courts in decentralised areas. Community courts are a potential enabling mechanism for the expansion of low-value and lower-risk financial services into rural areas. Customary legal systems have survived the colonial era, the revolution, the socialist restructure, the civil war and the liberal restructure. These age-old systems thrive to this day as they remain relevant, accountable and accessible; much like the intended social position of financial services.

However, capitalising on community court remedies would require some financial intermediation skill transfer to presiding officers and a harmonisation process between civil law contractual terms and the different customary legal positions. A significant hurdle would be to engender an understanding of legal pluralism within financial institutions, which are largely geared towards civil law processes and establishing the business case around the efficacy of dealing with clients in terms of the clients own core customary principles. If further

harmonisation is not possible, informal financial systems and processes will continue to develop around the customary legal systems and formal financial systems will likewise continue to polarise around the civil legal system.

1.1.2. Relationship between government, regulators and industry stakeholders

Centralised bureaucracy. Mozambique has a longstanding tradition of centralised bureaucratic structures. The necessary regulatory style required to support centralised administrative power has been re-imprinted since early colonial times and is a fundamental consideration in understanding the regulatory landscape and the broader implications for financial inclusion. There has always been a distinction between the "paved" urban areas and the "unpaved" rural areas, beyond the effective influence or interest of the centralised system of control.

Limited consultation. Aligned with centralised administrative control structures, financial regulation originates centrally in isolation, largely without substantive industry consultation, although there have been some recent examples of broader consultation. In instances where there is consultation, it is not in the conception and development phases but rather at the final draft stage, approaching promulgation. The state also has a policy of not consulting on interventions that the financial industry might see as restrictive of certain practices.

During discussions with the different divisions of the regulator, an underlying concern was voiced that the regulator needed to maintain control and impartiality, guarding against becoming too integrated within the financial services industry, which could lead to a position where the industry's interests become paramount at the expense of the wider public or state's interest. Whilst this is always a valid concern for regulators, in the instance of Mozambique, no overt sign was observed of any breakdown in control and impartiality, indicating any material current risk of the regulator becoming subjugated to the industry. Without evidence to the contrary, it remains a theoretical apprehension, but one that likely drives behaviour.

Upside: compliance benefits. Centralised regulation combined with a civil legal system has positive implications and possibilities for financial inclusion in promoting compliance of centralised policies, particularly where longer-term policy objectives do not coincide with more immediate commercial considerations. An example is the sudden regulation of banking fees, through Aviso 5/2009, to promote wider utilisation and social utility by reducing specific service charges. This effectively forced financial institutions to either operate at higher efficiency and scale or to cross subsidise marginal accounts or services with revenue from other more elastically-priced service offerings.

Downside: non-collaborative relationships, distrust. However, a political economy that does not emphasise transparency and industry collaboration can lead to friction between regulators and industry stakeholders. There appears to be underlying barriers of trust between the regulators and some industry participants. Some stakeholders were only willing to speak in the strictest of confidence, raising concerns about possible repurcusions for speaking out. During industry consultations, some providers felt that a lack of transparency and open consultation created risks for the industry. If advances are to be made in financial inclusion, such barriers of trust need to be addressed in order to advance substantive

cooperation between regulators and industry stakeholders.

A heavily state-controlled regulatory inclination tends not to solicit divergent viewpoints and does not leverage the intellectual capital in the financial services industry. With limited industry input into regulatory actions, the industry becomes exposed to the technical skill, foresight and ability of a very limited number of people within the regulator, who are not commercially engaged in the industry. There is scope for more dynamic regulatory approaches that preserve the integrity and authority of the regulator, whilst cooperatively advancing the financial services industry and using its intellectual capital in achieving social goals.

1.1.3. Financial regulators

The two primary financial regulators are the Bank of Mozambique (*Banco de Moçambique* - BdM), which has authority in a broad array of financial sector issues, including the supervision of all credit institutions (which include commercial banks), and the Institute for Insurance Supervision in Mozambique (*Instituto de Supervisão de Seguros de Moçambique* – ISSM), which is the insurance supervisor. Below, the role and ambit of each is considered in turn.

Banco de Moçambique

Value of national currency as primary mandate. The BdM was established as an organ of state by the Organic law 1 of 1992 (Organic Law). The Organic Law establishes the BdM's primary mandate as maintaining a stable currency. Furthermore, it provides that the BdM must oversee the following ancillary objectives:

- Monetary policy;
- Credit policy to promote economic and social growth and development;
- Foreign exchange management to meet international trade needs; and
- Discipline and regulation of banking activity.

The Organic Law also provides additional authority and constraints regarding BdM's ability to act, which in turn influences the manner in which it may exercise further broad powers conferred on it by other overarching legislation. The manner in which the Organic Law is structured is that ancillary objectives only exist and are solely exercised in pursuance of the primary objective. Furthermore the BdM may only pursue objectives in compliance with current government policies. Therefore the seemingly wide ambit of the Organic Law is legally constrained to actions in keeping with current government policy and solely aligned to the maintenance of the monetary value of the local currency.

Implications for financial inclusion mandate. The BdM plays a substantial role as far as financial inclusion is concerned – and it is noteworthy that the ancillary objectives established by the Organic Law explicitly include development. Yet any actions by BdM in pursuit of financial inclusion objectives would also need to have a direct causal link with maintaining the value of the national currency in order be valid in terms of the Organic Law. This law is the legislative basis for the establishment of the BdM and is the primary source of delegated regulatory authority which the BdM exercises with regard to the financial services industry.

Theoretically this means that credit market policy and regulation for instance cannot be a valid

BdM objective in its own right in order to promote social welfare, it can only be a valid BdM objective where the particular action has a plausible link to maintaining the national currency and is consistent with current government policy. In the above mooted example, controlling credit extension and interest rates are valid BdM objectives, not due to any direct impact on social welfare, but exclusively due to any positive impact on the value of the currency. Equally, regulatory interventions that undermine broad-based social welfare will likewise be valid BdM actions as long as the stable value of the currency is thereby promoted.

These legislated objectives, therefore, have implications for how the BdM might act with regards to various issues. For example, where an issue such as market conduct or market competitiveness arises, the BdM would be legally constrained to act unless there was a material link to maintaining the value of the national currency through monetary policy. This implies that the BdM is limited in how effectively it can address matters such as market conduct and competition, or appropriately support financial inclusion with the main objective of broader social welfare.

The extent to which this theoretical limitation translates into an issue in practice is, however, not clear. At the least, it creates a risk that the BdM may be found to act outside of its mandate in pursuing certain financial inclusion objectives.

ISSM

Young standalone regulator with roots in the Ministry of Finance. Following the termination of the monopoly of the state insurer, the duties of supervision of the insurance sector was shifted to the Ministry of Finance. In 1999, the Mozambican government passed legislation paving the way for the formation of the insurance regulatory body – Inspecção Geral de Seguros (IGS). In the most recent reform of the insurance regulatory framework, the mandate of the regulatory body was broadened and renamed the *Instituto de Supervisao de Seguros de Moçambique* (ISSM). The ISSM was created as regulator and independent supervisory authority by *Decreto-Lei No. 1/2010, 31 Dezembro de 2010* (the Insurance Act) and *Decreto No. 30/2011, 11 Agosto 2011* (regulations to the Insurance Act). Thus it is a fairly new standalone regulator operating under a new regulatory framework.

Authority over insurance and pensions sector. The ISSM's authority includes:

- The supervision and inspection of entities pursuing insurance activities, insurance intermediation, reinsurance as well as the management of supplementary pension funds (Article 5(2) – Conselho de Ministros).
- The supervision and subsidiary inspection of the execution of mandatory social assistance directed by the INSS and the Workers Pension Fund of the BM (Article 5(2) – Conselho de Ministros).

Provisions for microinsurance. The Insurance Act does not make any explicit mention of a development mandate, but does include provisions for microinsurance. Microinsurance can be underwritten by all authorised insurers and is described as "an integral part of the insurance activity in this country" (article 42(1), Insurance Act). Consultation with the ISSM has suggested that the supervisory entity is enthusiastic about the scope for microinsurance and it has expressed a willingness to make appropriate adjustments to the legislation in

support of developing markets and providing value to clients. Examples of facilitative elements include concessionary capital requirements on microinsurance, allowing for mutual insurers, a wide set of distribution channels, no restrictions on commission levels and, in general, the creation of a tiered regulatory regime. The microinsurance and low-income definitions within the microinsurance regime focus on wider access to insurance and are not merely on micro products.

Woven into the Insurance Act in an integral manner. Microinsurance has been fully integrated into the Insurance Act, creating a two-tier system for both underwriting and intermediation, including a concessionary regime for microinsurance. The approach leverages existing insurers while also allowing for new dedicated microinsurers. The authorised mainstream insurers and intermediaries can underwrite and distribute microinsurance without obtaining a separate licence and simply need permission to do so. Further, mainstream insurers with either a life or general insurance licence may underwrite composite microinsurance products. The microinsurance regime, nevertheless, still requires further amplification in the regulations, including benefit levels that still need to be calibrated and which is under consideration within the ISSM.

Framework for insurance evolving quickly: Yet work remains. The ISSM has been proactive and deliberate in seeking to create a regulatory framework to facilitate development. While there are some elements that will require further consideration, the acts provide a useful framework for microinsurance. However, it is apparent from the market analysis in **Section 6.4: Market for insurance**, that the insurance market is not yet making use of these provisions to a significant extent, in line with the very constrained ability to branch out into the lower-end retail insurance sector. Given the extent to which the Insurance Act has tried to accommodate multiple approaches, one of the key challenges will be to ensure that the various options are harmonised into an integrated framework. Specific attention will also need to be given to the implementation of regulation to ensure that the supervisory cost and compliance burden is minimised.

1.1.4. Classification of financial service providers

The table below outlines the various classes and types of financial service providers in Mozambique (as also outlined in **Section 5.1: Institutional landscape**, indicating the relevant regulatory authority for each type, the extent of prudential supervision and/or monitoring, and the main applicable legislation. A "Credit Institution" is a general categorisation of financial service providers which includes most financial services except insurance related entities.

Regulatory/Supervisory authority		**Degree of supervision**	**Regulated entities**	**Main legislation**
Banco de Moçambique	**Supervisory Division**	**Credit institutions**		
	Banking Supervision	*Subject to Prudential Supervision*	Commercial Banks	Law on Credit Institutions and Societies Financial - Law n º 15/99
			Finance leasing companies	
			Factoring companies	
			Investment companies	

	National Payments Division + Bank Supervision		Electronic currency institutions		
			Other firms		
			Credit Card issuers or management companies		
			Venture Capital companies		
			Money Exchange		
			Microfinance Operators		
	Banking Supervision		**Micro Banks**	Savings and Credit Bank	Regulamento das Microfinanças - Decreto nº 57/2004
				Rural Financial bank	
				Savings bank	
				Postal Savings Bank	
		Subject to Monitoring	Credit Cooperatives		Regulamento das Microfinanças - Decreto nº 57/2004
			Savings & Credit Organizations		
Instituto de Supervisao de Seguros de Moçambique (ISSM)		**Insurance Companies**			
		Subject to Prudential Supervision	Short Term		Insurance Law 2010
			Life		
			Health		
Banco de Moçambique		**Other Institutions**			
		Subject to Monitoring	Microcredit Operators		Regulamento das Microfinanças - Decreto 57/2004
			Deposit Taking Intermediaries		

Table 6: Regulated financial institutions

Source: BdM, ISSM

Broad array of entities under BdM authority. Law 15/99 (Credit Institutions and Finance Companies Law), Law 02/2008 (National Payment System Law) and Decree 57/2004 (Microfinance Regulations) established the powers of the BdM over:

- Credit Institutions (banks, finance leasing companies, credit cooperatives, factoring companies, investment companies, micro-bank and electronic currency institutions);
- Finance companies (finance brokerage companies, brokering firms, investment fund managers, property management companies, risk capital companies, group purchase managers, credit card issuers or managers, foreign exchange bureaux and discount houses);
- Payments systems (payment system networks, operators and participants); and

- Microfinance operators (savings & credit organizations, microcredit operators and deposit brokers as defined regulatory categories). The demarcation between micro-banks and MFIs is not that clear cut. The term "microbank" is based purely on the licence that it operates under and could in form be operating as a MFI.

The regulatory framework thus spans a number of licensed activities that allow for a complex array of financial service companies, each with their own idiosyncrasies that have over time been designed and accumulated for particular purposes aimed at expanding different types of financial services.

This strategy has resulted in a complex and onerous regulatory environment, with a high requirement for technical expertise and complex systems. The impact has been significant take up of licences in only six of the sixteen main Credit Institution licence types and three Insurance License types, despite the significantly reduced capital requirements. One aspect that may explain the relatively low take-up of certain licence types is that the potential market possibly does align with risk-based restrictions and therefore it becomes a better proposition to opt for a less restricted format despite the higher capital requirements. As financial services expand, the demands of such a complex supervisory environment may require consolidation and realignment of the different licence categories.

1.1.5. Prudential management of credit institutions

Moving towards Basel II. The BdM published the Basel II standard in 2013 for implementation in 2014 using the Standard Approach to Pillar 1 risk weighting and a basic indicator approach to operational risk to progress to the standardised/alternative standardised approach in 2015. The minimum capital adequacy is 8%, although branches and subsidiaries of international banks will also be required to comply with the standards set by their parent organisation, where that standard is higher than BdM prudential requirements.

The BdM also stipulates a required minimum reserve ratio of 8% of liabilities, which compares favourably with other developing countries in the region (Angola 15%, Zambia 18%, Kenya 5% and South Africa 2.5%). The BdM also stipulates that the deposits are exclusively in cash and do not bear any interest.

Interest-free reserve requirements. In terms of the Organic Law, the BdM is required to provide interest free loans to the government to the extent of 10% of the previous year's government revenue. This obligation could materially impact compulsory reserve requirement policies to the detriment of credit institutions, particularly where there is a material variance between the government budget in any particular year and the liabilities in the formal banking system. This provision likely underpins the regulation that require the deposit of cash by credit institutions at the BdM, interest free, as opposed to interest-bearing government securities or other liquid instruments.

This requirement may impact the pricing of consumer credit, particularly in instances where interest bearing government deposits are placed with commercial banks. Government deposits are not invested uniformly across all credit institutions and therefore the potential impact differs by institution. The disproportionate investment of government deposits with certain credit institutions, whilst simultaneously receiving interest free funding from the

central bank on this regulated bridging facility, has the potential to undermine competition and polarise funding and risk within limited institutions.

The implications for financial inclusion include that liquidity is extracted from the formal financial system (a particularly pertinent issue as will be discussed in **Section 5.1: Institutional landscape**), which contributes to the situation of skewed access to capital found in Mozambique. The requirement also creates a new level of costs for banks. Together, these factors reduce scale and contribute to the limited incentives for down-market retail expansion witnessed among credit institutions.

1.1.6. Payments system framework

Payments framework does not yet adequately manage clearing. The National Payments Systems law has moved the payments services industry in Mozambique a long way forward, but a comprehensive regulatory framework is still lacking which directly impacts the manner in which processes are conducted. For instance the net settlement processes in place, requiring the holding over of net settlements or the handover and manual scrutiny of physical cheque instruments, demonstrate a lack of trust and a comprehensive framework of reciprocal clearing rules for the containment of settlement and systemic risk. The holding over of an entire day's settlement not only poses significant risk to participants but also ties up the security of credit institutions.

Remittance infrastructure and regulatory framework is not defined. Other than the recent promulgation of a regulatory framework for card and card-based transactions, there is no comprehensive regulatory framework for P2P local and international remittances, including the use of e-money and other cross border payment services operators.

1.1.7. Consumer protection and transparency measures

Central bank's consumer protection objective. As discussed in **Section 3.2.3. Financial regulators**, two of the BdM's ancillary objectives are to "guide credit policy in such a way as to promote the country's economic and social growth and development", and to "discipline banking activity". These objectives are the basis upon which the BdM has an imperative to promote aspects of consumer protection. Although this is secondary to the primary mandate of maintaining a stable currency, the BdM has been active in addressing consumer protection concerns. The most notably example of this is Aviso 5/2009, discussed below.

Aviso 5/2009 strong consumer protection tool. While there is limited take-up of formal financial services in Mozambique, as seen in **Section 4: Target market analysis**, qualitative fieldwork did not pick up any signs of widespread consumer abuse. However, BdM consultations indicated that there was a series of unfair market practices which tried to increase profitability from extracting non-transparent costs from bank clients. In addition, there was a lack of effective competition in the banking sector, and a lack of comparative price information. It was against this background that the BdM passed into law Aviso 5/2009. It set standards for fee and commission disclosure in a comparable format, thereby enhancing consumer protection. It also limits certain transactional fees and prohibits others. While Aviso 5/2009 provided many protections for consumers, there have also been some negative unintended consequences as will be discussed in **Section 3.3. Cross-cutting themes affecting**

financial inclusion.

1.1.8. Land, property and collateral

Lack of real land tenure. The topic of land tenure was raised in **Section 2: Context drivers of market development**. All land in Mozambique was nationalised after independence and is the property of the State. As it is not possible to own land, one cannot obtain real rights in property. Therefore land has no real collateral value. That said, there has been an attempt to remedy this situation in the form of a DUAT which is similar to a 50-year lease, but without the same characteristics as a real right. It is also possible to own a structure that is attached to the land that is subject to a DUAT, but there are limited rights to compensation on expiry, expropriation or non-renewal of the DUAT.

The deficiencies in real rights are not that material in practice to property owners, as property can be easily traded and sales are notarised and registered. Farmland is more complicated than urban dwellings in that most rural land is not registered and access to the land is controlled interchangeably by the central government and the traditional local authority. Thus, despite receiving a long-term lease of farmland from the government, the continued tenure on that land is still subject to the local authority and traditional leadership. Practically there are very few disputes, but it does happen that if the lessee does not remain on the land and activity farm, then the land can be reallocated to others in the community.

1.2. Cross-cutting regulatory themes affecting financial inclusion

The discussion above already pointed to a number of ways in which the fabric and contents of the policy and regulatory framework impact on financial inclusion. Each of the product market sections (cross-reference) will pick up on regulatory issues of particular relevance to that product market. Here, the emerging cross-cutting themes are outlined.

1.2.1. Lack of transparency

The lack of a transparent and consultative approach in the development of regulation was discussed in **Section 3.1: Policy environment** above. The resultant regulatory uncertainty stems from at least three angles:

Access to regulatory instruments. Despite a large collection online at BdM, the collection is incomplete and more than one year out of date. A lack of ready access to a comprehensive body of financial and other regulation, both past and current was experienced in the analysis. Many financial institutions interviewed did not have complete and up-to-date regulatory collections. English legal translations are rare. Most regulation obtained in Portuguese are in the form of lower resolution images particularly with the more recent instruments. This challenges engagement by foreign-owned entities outside of the Portuguese countries.

Some regulations are excluded from public dissemination. This aspect was confirmed by both Credit Institutions and the BdM for reasons of market sensitivity.

Regulatory instruments used as a form of disciplinary measure. Regulatory change management has been voiced as a serious concern by interviewees, particularly where

regulatory instruments were used as sanctions and where the institutions had been substantially compliant with all regulations in force at the time. The issue raised is the deliberate issuing of snap regulations without warning or transitional provisions. The snap regulatory measures contained swings in regulatory and monetary policy positions that for some institutions took up to two years to unwind balance sheet positions and far longer to recover and proceed with market growth. This type of action is not conducive to a lower risk supervisory environment able to grow.

1.2.2. Gaps in financial regulation

Unintended impacts of Aviso 5/2009

Unintended consequences. Aviso 5/09 should be commended for its intentions to cap transactional fees and make certain transactions free, thereby reducing costs for consumers. Furthermore, it requires a publishing of fees and prices which is a worthwhile market information development and a positive example for the entire region. However, some terms of Aviso 5/2009 may likely have an unintended negative impact on financial inclusion. For instance, the centralised determination of some prices and the limitation of some types of fees that may be charged may have some short-term upside for financial inclusion, but also has the potential of disrupting the financial services market, as it necessitates providers to offset real costs against unrelated services in a non-transparent way. For example, a lowering of transaction fees may lead to an increase in account or other fees, such as statement fees, to offset costs.

It also locks in a particular business model. For example: banks cannot use prices to incentivise consumers to use electronic channels or agents. Another practical example is encashment fees, which in Mozambique are a material item given costly branch infrastructure and the logistics of constantly moving physical cash between urban and rural areas. Yet no cash deposit fees may be charged under Aviso 5/2009. Barring banks from transparently recovering encashment costs would dissuade the establishment of encashment facilities in logistically expensive areas and could also cause institutions to cross-subsidise encashment with other higher margin fees such as statement and electronic banking *ad valorem* charges.

A more in depth discussion on the implications of *Aviso 5/2009* follows in **Section 6.1: Market for payments**.

Branch and agent banking regulatory requirements

Banking has become more technologically driven with fewer physical logistical dependencies and it follows that the utilisation of branch infrastructure may be changing and decreasing over time. Financial services in Mozambique are at a key point where it would be possible to divert to technology-driven modalities and avoid the burdensome cost of building branch infrastructure that would likely become obsolete in the medium term.

Emphasis on branch roll-out reinforces cash economy. While not found in regulations, industry consultations found that the BdM provides input on where branches should be rolled out. However, encouraging bank branches reinforces the persistence of a cash economy – a storyline that is again picked up in **Section 6.1: Market for payments**. That is not to say that bank branches are not useful community gathering points and also places of financial

awareness and education, but the cost and useful lifespan of a branch would require a significant contribution in the form of fees, charges and interest margin from the communities they serve. The appetite to roll out branches at sometimes three times the cost in neighbouring countries will likely not easily find favour in investment committees of commercial banks, particularly when the location of the branch is not entirely up to the bank based on its own marketing strategy – as the consultations suggest to be the case in Mozambique.

Agent banking regulation in the pipeline, but proportionality unclear. The recently published amendment to the Credit Institutions Law (Decreto 30/2014) relating to the authority of the BdM to provide for agent banking modalities is encouraging. However, details are not yet available as to how this will be developed in subsequent regulations. To realise its full benefit, the final agent banking regulatory framework would need to provide communities with different options such as kiosks, branchless banking, automated banking and service agencies. If, however, the agent banking requirements call for significant infrastructure, this will likely negate the key benefits of agent banking and dampen the pace of financial inclusion.

Definition of deposit intermediation a key consideration. Key to the development of a regulatory framework for points of representation is the question of when deposits are intermediated. The current regulatory framework is clear that deposits are considered to be intermediated when they are accepted by a party for their own account. The acceptance of deposits for safekeeping or as agent of another is likely not considered intermediation by that party, but in a civil legal system, this would require clarification. The issue becomes critical in defining when a person is acting on behalf of a bank as agent or when a person is acting on his/her own behalf, such as a mobile agent who trades with his/her own cash resources.

Other issues to be considered in constructing agent banking regulations:

- The amendment refers to employment of the agent, which implies an employee relationship and not an agency relationship;
- The level of physical security required for agent banking should be proportional to the level of criminal risk and in line with the total amount of money at risk, nuanced for regional context.
- The amendment indicates that approval will be required if a bank wishes to withdraw its agent network from particular locations or areas and such approval is contingent upon factors such as alternative employment for the agent staff and access to other bank agents in the area. This could be a disincentive for banks to develop agent networks, as withdrawal from unprofitable areas could be prevented.

Absence of comprehensive e-money regulations

Lack of regulatory certainty an impediment to growth. The regulatory structure for electronic currency institutions does not provide a sufficient framework on which to expand already technically proficient e-money services. Key clarification required relates to:

- The generation of interest on float accounts on behalf of mobile money balance holders net of float account fees.

generate few jobs, as they are concentrated in capital-intensive activities[33]. Mozambique therefore faces a skills mismatch that challenges labour absorption capacity: most people are engaged in low-skilled, informal activities whereas the current main economic growth engines require high-skilled, technical staff[34].

High extent of regional integration. Mozambique shares close ties to South Africa. South Africa is one of Mozambique's largest trading partners and in 2009, 35% of Mozambique's imports were from South Africa,[35] while South Africa was the second largest importer of Mozambican exports. Additionally, there are approximately 200,000 Mozambican migrant workers in South Africa, primarily in the agricultural and mining sector[36] with remittances from these migrant workers representing an estimated 1% of the country's GDP[37].

Aid dependency. Mozambique is highly dependent on donor aid. In 2012, it received approximately USD 2.1 billion[38] in net development assistance and official aid, representing 14% of GDP[39].

2.3. Agricultural sector context

As will be apparent from the sections to follow, agriculture emerges as a key theme across the various aspects of the MAP analysis. The main features and trends in the sector therefore deserve separate attention.

Large contributor to economic output and livelihoods. The Mozambican economy is an agrarian economy characterised by high levels of subsistence farming, and low production levels per hectare in comparison to other developing nations. Agriculture accounted for 29% of GDP in 2013[40]. The sector is a major source of livelihoods, with up to 80% of the labour force in some way involved in agriculture[41].

Almost all farmers are smallholders. According to the latest agricultural census (INE, 2009-2010), there were approximately 3.8m smallholder farmers in Mozambique, but only 25 654 medium scale and 840 large commercial farms. Thus smallholder farmers account for more

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- The conversion of net interest to mobile money and distribution to account holders either quarterly, bi-annually or annually depending on materiality.
- Disposal or safekeeping of dormant balances.
- The legality of digital receipts and verification of payments.
- Interoperability between e-money schemes and banking accounts.
- ATM, POS and card based payment compatibility .

Target market analysis, this figure lines up closely with the FinScope (2014) dataset.

[33] http://unctad.org/en/publicationslibrary/diaepcb2012d1_en.pdf

[34] http://www.ilo.org/wcmsp5/groups/public/@ed_protect/@protrav/@travail/documents/publication/wcms_119345.pdf

[35] OECD, 2011. 'AID at a Glance – Mozambique'. Available at: http://www.oecd.org/dataoecd/4/30/48324401.pdf. [Accessed October 2011].

[36] Barclays Bank, 2011.

[37] Overseas Development Institute (ODI), 2010a. 'Sector Budget Support in Practice – Case Study: Health Sector in Mozambique'. Available at: http://www.odi.org.uk/resources/docs/6405.pdf. [Accessed December 2011].

[38] http://data.worldbank.org/indicator/DT.ODA.ALLD.CD

[39] Based on GDP data obtained from the world bank: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/MZ?display=graph

[40] World Development Indicators: Mozambique - Agriculture, value added (% of GDP) at http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS

[41] Mucavele, F.G. (2009) True Contribution of Agriculture to Economic Growth and Poverty Reduction: Malawi, Mozambique and Zambia Synthesis Report.

than 99% of all farms in Mozambique.

A wide variety of crops produced across regions. The vast majority of agricultural production is rain-fed. Fourty-six percent,[42] or 36m hectares, of total land area in Mozambique is defined as arable land according to the Food and Agriculture Organisation (FAO) definition. According to the FAO, the major crops produced in 2010 were cassava, sugar cane, maize and sweet potatoes. The top agricultural exports by quantity in 2011 were wood, sugar, tobacco, bananas and sesame seeds, and in terms of the products by value the order and ranking is tobacco, wood, sugar, crustaceans and cotton.

Table 1 describes the main crops and conditions across regions. The North is thought to represent the greatest opportunity for increasing yields, while the Centre may profit from agricultural trade along the Beira Corridor. The South is the least productive region and depends on imports from South Africa to cover its food requirements. The redistribution of food from North to South is constrained due to poor infrastructure links (further discussed in **Section 2.5**).

Region	Main crops	Agricultural conditions	Contextual factors
North	Cereals and root crops, in particular cassava	Mostly favourable, tropical high-rainfall climatic zone	Further development along the major Nacala trade route likely
Centre	Cereals	Generally favourable, agro-ecologically diverse	Potential for growth in agricultural trade in Beira Corridor
South	Pulses, nuts and oilseeds, horticulture	Lowest precipitation, high drought propensity	High population density, highly impoverished, large food deficits. Region, especially Maputo City, imports large amounts of food from South Africa.

Table 1: Agricultural crops and conditions across regions

Source: http://www.ifpri.org/sites/default/files/publications/mozsspwp2.pdf

Generally low productivity, partly due to limited input use. In 2012, Mozambique's cereal yield was 694 kilograms per hectare(kg per hectare). In 2013, the crop yield rose to 818kg per hectare[43]. This compares poorly to the average cereal yield across all low-income countries of 2 146 kg per hectare[44]. The average plot size for smallholder farmers is only 1.1 hectares per household. As can be seen from the table below, the low productivity rates are due to a dependence on traditional farming methods and manual cultivation techniques (only 4% use animal traction and almost none use mechanized items), in addition to the use of low quality seed (only 17% use improved seeds). Agrochemicals are estimated to be used by at most 5% of smallholders[45]. In 2012, 51 600 metric tons (mt) of fertilizer were consumed in Mozambique, of which nearly 90% went towards commercial farming of tobacco and sugarcane. On average, fertilizer consumption stood at only 6kg per hectare. It is estimated

[42] Stimulating Private-Sector Agribusiness Investment in Mozambique, Multi-stakeholder Action Plan (August, 2012)
[43] http://data.worldbank.org/indicator/AG.YLD.CREL.KG
[44] http://wdi.worldbank.org/table/3.3
[45] The low use if inputs recorded in FinScope is affirmed by secondary sources. See http://www.ifad.org/gbdocs/eb/103/e/EB-2011-103-R-13.pdf.

that around 225 000 mt (that is, more than four times the current consumption) would need to be consumed to meet the country's agricultural growth targets[46]. However, producers have limited experience or knowledge of the agronomic or economic benefit of fertiliser, plus smallholder farmers have limited ability to afford such inputs[47]. Access to implements that would improve yields is further hampered by extremely limited access to agricultural finance.

Input	Yes	No
Fertilizer	12%	88%
Pesticides	10%	90%
Improved seeds	17%	83%
Own tractor	0%	100%
Hired tractor	1%	99%
Oxen for ploughing	4%	96%
Hired labour	9%	91%

Table 2: Input use across farmers who sell[48]

Source: FinScope (2009)[49]

Small scale farmers grow mainly for consumption, with some selling. Of the 95% of farmers who are small scale farmers, very few are engaged in agriculture purely for commercial purposes. While only 0.8%, or 30 400, of farmers do so *for selling only*, and 1% (38 000) of those involved in agriculture farm *mainly to sell,* more than half of all those involved in agriculture or fishing produce both for own consumption and selling. Twenty-six percent farm for own consumption *only*, and a further 15% farm *mostly for own consumption*[50]. Effectively, 59% of small scale farmers are engaged in some form of surplus-generating farming:

[46] http://www.ifdc.org/r-d/research/mozambique-fertilizer-assessment
[47] http://www.scielo.org.za/pdf/sajae/v41n1/06.pdf
[48] Only those that indicated that they sell agricultural products were regarding their inputs.
[49] Note that these questions were not asked in FinScope 2014. The latest available data is therefore for 2009.
[50] These figures discuss agriculture across all Mozambicans. As will be unpacked in the <LINK TO TARGET MARKET> section, involvement in agriculture is popular amongst all Mozambicans, with 80% indicated that they are involved in agriculture and 64% in livestock. The proportions and reasons for being involved in agriculture vary across different groups of people.

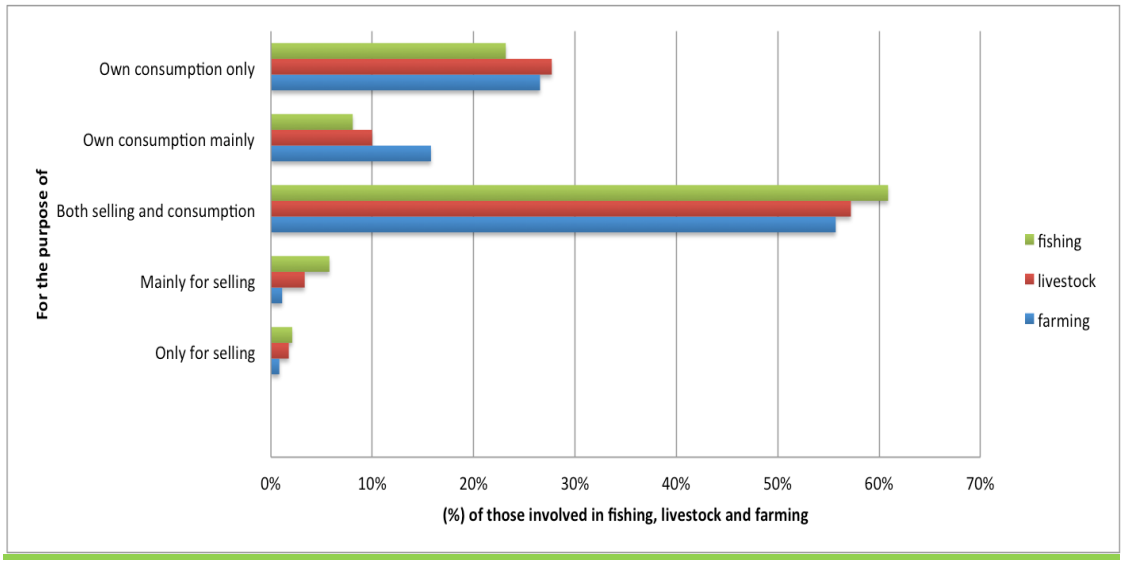

Figure 8: The Purpose of agricultural involvement

Source: FinScope (2014)

The following table considers the reasons why purely subsistence farmers do not sell any outputs:

Reason for only consuming[51]	Agriculture	Livestock
Market is too far	1%	0%
There is no transport to the market	1%	0%
Transport is too expensive	0%	0%
There is no surplus to sell	81%	80%
There is no need to sell / I have other incomes	13%	12%
Other motive	4%	7%
I do not know	2%	2%

Table 3: Reasons for only consuming agricultural outputs

Source: FinScope (2014)

Subsistence farmers do not produce enough to transition to sellers. The principal reason why purely subsistence farmers do not engage in selling outputs is because they do not produce a sufficient surplus to sell. Other barriers, such as distance and transport costs, barely feature. Simultaneously, approximately 13% of Mozambicans who are involved in agriculture for their own consumption do so because they do not have a need to sell their agricultural products. As will be discussed in **Section 4: Target market analysis**, consists primarily of Mozambicans who supplement their household incomes with small scale agricultural involvement.

A small, but significant group does sell produce to large agricultural producers and processors. FinScope (2009) asked those who indicated their main source of livelihood to be from agriculture-related activities whom they sell their crops to. Approximately 165 000 farmers (7% of farmers) indicated that they sell their crops to large agricultural producers

[51] Due to the small number of people involved in fishing relative to agriculture and livestock breeding, it is not included as a column here.

and processors. Thus there could be potential for some scale and reach through these channels.

Input financing as potential touch point with smallholder farmers. FinScope also asked respondents who indicated their main source of livelihood to be from agriculture related activities how they source the funding of their inputs. While there were various options including commercial banks, in actuality only 2.3% of farmers borrowed from commercial banks; with the majority of these consisting of larger farms. Additional sources of input finance come from: input providers (outgrower schemes), the government through District Development Funds, microfinance institutions (MFIs), self-help groups, and relatives and friends.

Limited access to agricultural finance. The percentage of commercial bank lending to this sector was 6.5% in 2010, a decline from 9.4% in 2008. In 2010 the number of rural farmers receiving access to agricultural credit was a low 2.3%[52]. The bulk of this was allocated to large farms with 14% of 840 large farms receiving agricultural finance, 7% of 25 564 medium farms and 2.26% of 3.8m farms. The remainder rely on the government, agricultural development banks, credit cooperatives, input providers, self-help groups, relatives and friends, or other sources for credit.

Farm category	Number of farms	No. of farms accessing credit	As % of each category
Small	3,801,259	86,044	2.26
Medium	25,654	1,790	7.00
Large	840	119	14.00
Total	3,827,754	87,953	2.30

Table 4: Number of farms and access to credit across farm categories

Source: Agricultural Census, 2009–2010, INE

Land tenure system challenges collateral. As the discussion in **Section 6.2: Market for credit** will show, the oft cited reasons for the reluctance of financial institutions lending to farmers are the lack of collateral on the part of borrowers, the lack of liquidity, the low levels of business skills amongst borrowers, and the low profitability of agricultural projects (given the small scale of smallholder farms). The challenge of collateral is further exacerbated by the fact that all land is state-owned and cannot be sold or used as collateral against a loan[53]. Land user-rights are granted, however, through the "Direito de Uso e Aproveitamento da Terra" (DUAT), which is a state-granted land right[54].

Outgrower schemes play significant role in agricultural development. Given the large number of smallholder farmers in Mozambique, the extent of aggregation of small scale farmers is an important consideration when considering the potential for reaching them for financial inclusion purposes in the rest of the analysis. Analysis of the FinScope 2009 data shows that almost 175 000 (7% of farmers) indicated they receive some form of funding from a large agricultural producer or processor. Some agri-distributors ('empresas de fomento') and

[52] World Bank (2012) Agribusiness Indicators; Mozambique at http://documents.worldbank.org/curated/en/2012/04/16374790/agribusiness-indicators-mozambique
[53] AgriFin (2012) Agribusiness Finance in Mozambique at https://agrifinfacility.org/agribusiness-finance-mozambique
[54] Maputo and informal land tenure arrangements at http://www.urbanlandmark.org.za/downloads/tm2013_03.pdf

processors provide credit via outgrower schemes for cash crops to smallholder farmers in which they provide them with inputs such as fertilisers and seeds at the beginning of the planting season and a pre-agreed price that will be paid for the harvest at the end of the season. Thus the company pays the agreed price, but deducts the cost of the distributed inputs provided at the beginning of the season. Some of the example outgrower companies include Mozambique Leaf Tabacco (MLT), Cottco, Plexus, Olam, SANAM, China African Cotton, JFS/SAN and SAM. Seed suppliers are also a potential distribution channel. For example, AgDevCo, provides seeds to more than 120 000 farmers. AgDevCo is already a distribution partner for an agricultural weather index insurance scheme aimed at smallholder cotton farmers in the North of the country (see **Section 6.4: Market for insurance** for more details).

As **Table 5** illustrates, outgrower schemes are a significant source of financing for various farming inputs.

Item	Number of people[55]	Total[56]
Pesticides: Savings	70,290	35%
Pesticides: Outgrower	124,894	62%
Fertilizer: Savings	82,890	35%
Fertilizer: Outgrower	140,090	59%
Improves seeds: Savings	231,653	70%
Improved seeds: Outgrower	88,445	27%

Table 5: Source of financing for various farming inputs

Source: FinScope 2009.

[55] Note: Only those that indicated that they are selling agricultural products were asked whether or not they used any inputs. Only those that indicated that they use an input and that it was financed via a particular mechanism are indicated here.
[56] The percentage is expressed as a total of sellers that indicate that they use this type of input.

Box 4: The case of agricultural value chains in Tete province.

The potential for financial inclusion via outgrower schemes attached to commercial entities is significant, even if still only relevant for a small proportion of farmers overall. As an illustration, this box investigates the impact that such schemes have had in one of Mozambique's poorest provinces, Tete. Below, three agricultural outgrowers are investigated:

- **Mozambique Tobacco Leaf Company (MLTC)** has a significant presence in Tete with an outgrower network of 45 000 farmers (of 90 000 nationally). These farmers produced 15 000 tons of tobacco and the aim is to increase production to 45 000 by 2015. The farmers are supported by MLTC for all the inputs they require for their production[57].
  The relationship between the farmers and MLTC starts afresh every year where a promotion day is held. On this day, the contract for the year is unveiled and forecasted demand and prices shared. The only item that may change is the price and volume in the contract[58]. Historically, farmers make approximately USD400 profit off their crop per year[59].
- **Dunavant** is the principle cotton purchaser in Mozambique and has an extensive presence in both Tete and Zambezia, where it collectively supports 40 000 farmers through outgrower schemes. For this purpose, it has received funding from other donors and aims to increase the number of farmers supported to 100 000 in 10 years[60].
- **CB FarmFresh** is a more recent addition to the outgrower landscape in Mozambique. It centers around fresh fruit and currently has a 5 year project commitment in Mozambique, starting in 2012. The ultimate goal of the program is to support farmers in a 200km radius around their factory, with the goal of turning them into eventual suppliers. By the end of the project, it aims to have 500 farmers in the program, resulting in a total of 3 600 people being employed under the program.

The above examples illustrate that outgrower schemes are popular across a variety of crops, whilst the players in the industry range from small scale start-ups focused on creating development, to the subsidiaries of large multinational companies[61].

2.4. Demographic and socioeconomic context

Small, young and rural population. The total population of Mozambique was 25.8m in 2013 according to the World Bank[62]. The population is expected to grow at 2.4% between 2012 and 2030[63] resulting in a total population of 38.9m by 2030[64]. **Figure 9** illustrates the distribution of the population across provinces. The three most populated provinces, Nampula, Zambezia and Sofala, are home to nearly half of the population. The current level of urbanisation is 33%, with 67% of the population residing in rural areas. Most of the population according to FinScope 2014 estimates are fairly young, with 29% of adults being aged between 16 to 24 and another 24% between 25 and 34.

[57] http://www.fanrpan.org/news/1344/news
[58] http://www.inclusivebusiness.org.zw/case-study/mozambique-leaf-tobacco-and-small-scale-farmers-tete-province-mozambique
[59] Date of publication: 2008
[60] Will need to dig more. The source does not specify the start/end of this 10 year period. http://www.ide.go.jp/English/Data/Africa_file/Company/mozambique03.html
[61] In the absence of official statistics, it is difficult to make an industry-wide comparison and the illustration presented here is thus valid only for Tete province.
[62] http://data.worldbank.org/country/mozambique
[63] http://www.unicef.org/infobycountry/mozambique_statistics.html
[64] http://esa.un.org/unpd/wpp/Demographic-Profiles/pdfs/508.pdf

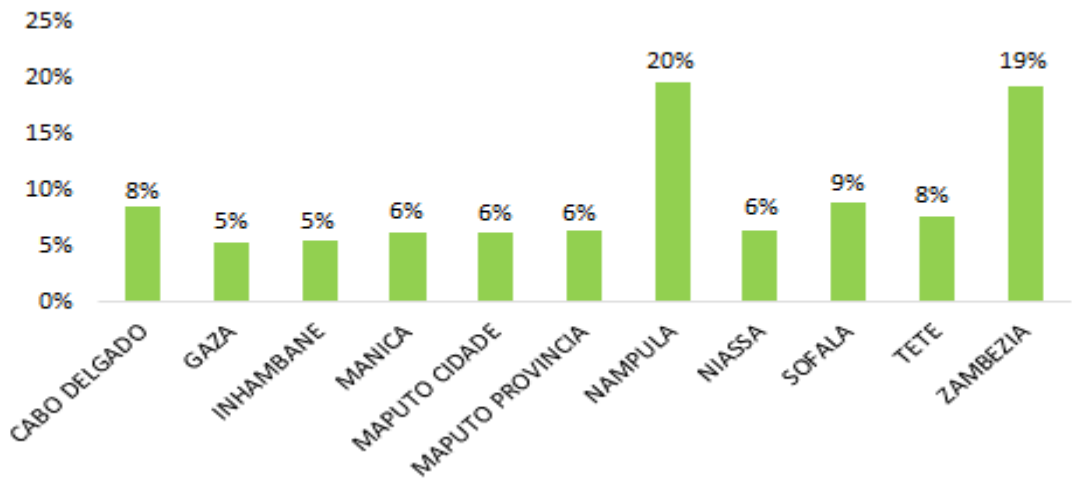

Figure 9: Population distribution across Provinces (%)

Source: Finscope 2014

The average household size is 4.8 persons and the median is 5 persons. A total of 21% of households are headed by women and 18% are headed by a person 60 years or older.

Large scale poverty and high inequality. In 2009, using international PPP dollar rates, 61% of Mozambicans lived below $1.25 per day, 83% below a poverty line of $2/day and 98% below a poverty line of $5/day. There has been a significant reduction in poverty, particularly for the extremely low income individuals (below $1.25), which stood at 81% in 1996. Mozambique had a GINI coefficient of 46 in 2009 – generally a Gini above 50 is considered to be high. The level of inequality has remained largely unchanged over time.

The poor suffer many deprivations. The main risks affecting the poorest households in urban and rural areas are hunger, illness or death of a family member, unemployment and harvest loss[65]. Some individuals above the poverty line still suffer deprivations in education, health and other living conditions[66]. Income poverty therefore understates the level of hardship in Mozambique. The general state of poverty is confirmed by the qualitative demand-side research:

Q: *"What would you do if you won 3000 Meticais?"*

R: *"Eat the money!" …" Food, food food! What more do you need in your old age?*

Female, 40 plus, Matola

"We do not have the conditions here. We are crying!"

Male, 40 plus, Niassa

[65] https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0CCIQFjAB&url=http%3A%2F%2Fwww.social-protection.org%2Fgimi%2Fgess%2FRessourceDownload.action%3Fressource.ressourceId%3D24374&ei=L5fvVJCCH4jxUJTcgNAN&usg=AFQjCNHPMgxfiKXAymFnU_vRi0bZO6KUWw&sig2=TVJXW8EjKMJdAgLy25X8IQ&bvm=bv.86956481,d.d24

[66] See source: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MOZ.pdf

In-kind/subsistence income enhances livelihoods. According to FinScope, at least 26% of the adult population earn at least some of their income in kind (non-monetary income)[67]. As stated above, about 80% of the adult population are involved in agriculture. Of these, less than 1% do not produce any output for own consumption. Thus non-monetised income plays an important role in supporting livelihoods and may mean that monetary income figures understate true living standards.

Women in more marginalised position. Women make up 51% of the Mozambican population. Only 40% of women between the ages of 15 to 49 are literate. When women in rural areas are considered, this figure drops to 26%. The number of woman-headed households is rising quickly. These women have less land to ensure food security and are more vulnerable to natural disasters[68]. Government has recently begun making efforts to widen and increase awareness on women's rights[69].

Social safety nets have limited reach[70]. The social protection system in Mozambique consists of three core elements: food subsidies (basic social protection), social security schemes, and healthcare. Two levels of intervention are defined – basic and obligatory:

- **Basic level: primary healthcare, food subsidies and cash transfer programmes**. The basic level comprises the core healthcare system plus the provision of food subsidies and cash transfers:

    - A minimal user fee of less than a dollar is payable for a consultation with a nurse or doctor at health station (*posto de saude*), including the provision of basic drugs. Pregnant women, children under the age of five and their mothers do not have to pay any consultation fees at health care facilities, however such clinics are however often reported to be understocked with medicines.
    - Basic social protection also covers various food and basic commodity subsidies targeted towards the poor. These include a bread subsidy[71], urban public transport subsidy, a 7.5% reduction in the price of low-grade rice and reduced surtaxes and customs duty on imported foods. The importance of these subsidies was highlighted in September 2010, when the reduction and abolishment of some of the subsidies, notably on bread, led to public unrest, which saw them reinstated with some adjustments.
    - There are also cash transfer programs such as the *Programa de Subsidio de Alimentos* (PSA) implemented by the National Institution for Social Action (INAS) on behalf of the Ministry of Women and Social Action (MIMAS). In 2007 this program covered approximately 100 000 chronically ill, destitute individuals, of which 90% were elderly[72]. Thus only a small group of people are reached on a regular basis by cash transfers.

[67] This includes dependents (18%) who indicate that their needs are taken care of by their household and that no monetary exchange takes place (such as receiving remittances, or cash, to take care of needs).
[68] http://www.ifad.org/operations/projects/regions/Pf/factsheets/mozambique_p.pdf
[69] http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Mozambique_EN.pdf
[70] Note: this discussion draws on the analysis in the 2012 Microinsurance Diagnostic for Mozambique conducted by Cenfri.
[71] http://www.irinnews.org/report/92679/mozambique-cheaper-new-food-subsidy-coming
[72] Taimo and Waterhouse, 2007. Available at: http://wahenga.org/sites/default/files/reports/REBA_Mozambique_Food_Subsidy_Programme.pdf. [Accessed August 2012]

- Furthermore, in the event of natural disasters the government provides relief aid, which is often done in conjunction with donors.

- **Obligatory level: social security scheme**. Obligatory social protection in Mozambique entails a social security scheme covering the formally employed in the private sector as well as their dependents. The system is administered by the INSS with the main objective being to provide insurance for illness or disability to those that are employed. Public servants have their own social security scheme, administrated by the Ministry of Finance[73].

  The required contribution is 7% of the total monthly wage, of which 3% is paid by the employee and 4% by the employer. Despite it being compulsory for all enterprises and workers, compliance is low. A 2011 study found that only 256 000 out of 891 000 workers were actively contributing, and that less than half of the companies registered with the INSS are submitting contributions. Implementation is furthermore hampered by lack of effective administration (which relies on a paper-based system). Since the end of 2011 the INSS has been in the process of computerising its various administration processes.

Human capital development a core challenge. Largely as a result of the civil war legacy, adults in Mozambique have an average of only 1.2 years of formal education, which is estimated to be the lowest in the world[74]. This low level of education implies low skill levels in the labour force, which was highlighted as a structural economic constraint above. In an attempt to increase primary enrolment, in 2005 government made primary schooling free with the assistance of donors[75]. As a result, access to education is now expanding at a greater rate than population growth[76]. Notably, gross primary enrolment has reached a phenomenal 105%, implying that enrolment also extends into non-eligible age groups. Male primary enrolment is 110%, compared to 100% for females (World Bank, 2014). However, secondary school net attendance remains only 20%. Furthermore, there are indications that the high enrolment rate has resulted in the quality of education being compromised[77]. The literacy rates of the population above the years of 15 remains only 51%[78]. Thus human capital development requires much needed attention, even if the government has set education as a priority fiscal expenditure category[79]. Furthermore, ancillary costs such as school books and uniforms have been identified in a study by the World Bank as an opportunity cost which is a significant barrier to education[80].

High value placed on education. Throughout the qualitative demand-side research, respondents placed emphasis on education, as the quote below illustrates. However, FinScope (2014) indicates that only 8% of savers actually save towards education. This may reflect the

[73] INSS has been requested to take over this scheme, but preferred to strengthen its capacities before loading more contributors and administrative burden (interview by S Teyssier, June 2011).
[74] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Mozambique%20Full%20PDF%20Country%20Note.pdf
[75] https://openknowledge.worldbank.org/bitstream/handle/10986/6021/683610PUB0EPI0067902B09780821389751.pdf?sequence=1
[76] http://www.preventionweb.net/files/16411_thirdnationalpovertyassessment.pdf
[77] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Mozambique%20Full%20PDF%20Country%20Note.pdf
[78] www.devdata.wroldbank.org
[79] http://www.imf.org/external/pubs/ft/scr/2014/cr14148.pdf
[80] https://openknowledge.worldbank.org/bitstream/handle/10986/6021/683610PUB0EPI0067902B09780821389751.pdf?sequence=1

still prevalent systemic constraints to the education system beyond free primary education.

> "*It is important to go to school, but you must also learn a profession. Without education, there is nothing! That is the advice I give to my grandchildren.*"
>
> Female, Age 66, Matola (sells traditional medicine)

The aspiration for better education was also apparent among adults who wish to complete their education (explaining the more than 100% primary enrolment rate):

> *"I want my children to reach the highest level of schooling possible. I would also like to complete my own schooling, even if it means going to evening classes."*
>
> Male, 20-30, Maputo
>
> Q*: "What would you do if you won 300 000 meticais?"*
>
> A: *"I would go back to school. I would like to finish my grade 12."*
>
> Female, 30-40, Maputo

Health concerns are a key vulnerability. The current status of the population's health is largely a result of socio-economic conditions. Communicable diseases including malaria, HIV/AIDS, diarrhoea, acute respiratory infections and tuberculosis are the major ailments, with non-communicable diseases such as cardiovascular disease, injuries and cancer rising in urban areas[81]. Mozambique has a relatively high total fertility rate (TFR) with figures indicating that Mozambican women have an average of 5.9 children during their reproductive life[82]. The average number of children per woman amongst those with little or no education is almost twice that of a woman who possesses at least a secondary education, at 6.8 for the former and 3.4 for the latter. The infant mortality rate in 2013 was 62 per 1 000 live births, while 87 per 1 000 live births do not make it to their 5th birthday, ranking far above the world average mortality rate of 46 per 1 000 live births. Only about 54% of total births in 2011 were in the presence of skilled health staff, according to the World Bank.

[81] http://www.aho.afro.who.int/profiles_information/index.php/Mozambique:Health_Status_and_Trends
[82] http://dhsprogram.com/pubs/pdf/FR266/FR266.pdf

Box 5: Health system infrastructure

Limited healthcare infrastructure and reach. The health system consists of a network of health facilities comprising 700 health stations and 350 health centres at primary level, with a combined number of 7 200 beds. At secondary level, there are approximately 30 hospitals with ,200 beds. Secondary care includes first reference services, admission and basic surgery. The tertiary level covers surgery, obstetrics, gynaecology and paediatrics. There are only 7 provincial hospitals at this level, with 1 800 beds.

This level of infrastructure is very low in regional and global terms. Between 2005 and 2012, Mozambique averaged only seven hospital beds per 10 000 population[83], compared to 13 for Malawi, 18 for Botswana, 21 for Swaziland 30 globally. This is exacerbated by a shortage in medical personnel across the entire spectrum of healthcare services. In 2009 there were only three doctors and 21 nurses per 100 000 people with other healthcare workers (including dentists, pharmacists, lab technicians and midwives) also significantly under represented (USAID, 2009). Pharmaceutical distribution also faces structural challenges: most pharmaceutical distributors and wholesalers are concentrated in the Maputo province, with only three exceptions in Chokwe, Beira and Nampula[84]. Physical infrastructure constraints (see Section 2.5 below) challenge pharmaceutical distribution throughout the country, meaning that rural clinics are often not well stocked. The number of pharmaceutical personnel per 1 000 populations was only 0.03 in 2009, according to the USAID[85].

Thus, while there have been improvements in the provision of healthcare, a large portion of the population remains unable to access these services. In 2010, the WHO estimated that 40% of the Mozambican population do not have access to even basic healthcare.

Mostly reliant on public and donor funding. Public expenditure on health was 6.4%[86] of GDP and government expenditure represented 44% of total expenditure on healthcare in 2012[87]. An estimated 25 donors assist with 70% of the health budget through basket funding. Some donors provide direct financial assistance to the Ministry of Health and others to specific areas of the country or disease areas[88]. Out of pocket expenditure was reported to be 9% of total private expenditure on health[89].

Limited private health services provision. The healthcare landscape has been greatly influenced by the country's history, when at the onset of independence, as with other sectors in the country, the healthcare sector was nationalized. At present, the government remains the dominant provider of healthcare services, with 95% of services provided by the public sector (ODI, 2010). In recent years, the country has seen the development of a small private health care system. However, no large private healthcare networks have been established and the country still faces significant challenges both in terms of the provision and access to healthcare services.

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[83] http://www.who.int/gho/publications/world_health_statistics/EN_WHS2013_Part3.pdf?ua=1.

[84] http://www.medpages.co.za/sf/index.php?page=listing&suburbcode=0&servicecode=65&countryid=15&regioncode=0&subregioncode=0&pageno=1

[85] https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&cad=rja&uact=8&ved=0CC4QFjAE&url=http%3A%2F%2Fwww.afro.who.int%2Fen%2Fdownloads%2Fdoc_download%2F5335-mozambique.html&ei=MzT5VMrWMIvxUNrbgOAP&usg=AFQjCNF7kCusDZJkh3IxYkHZSvLH1FCjBg&sig2=hmwybPTzkPLbLeBykDuaXA&bvm=bv.87611401,d.d24

[86] http://kff.org/global-indicator/total-expenditure-on-health/

2.5. Infrastructure

Infrastructure a major challenge to development. While the megaprojects referred to in **Section 2.2** have attracted much foreign investment, the country at large is still plagued by very poor infrastructure[90]. Below, more detail is provided on the level of infrastructure in terms of transport infrastructure, electricity and sanitation.

Poor road network and quality. Mozambique spans about 2 000km in distance from North to South, with varying width from 50 to 600km from West to East, and a total area of 801 590 square kilometres. Population density in terms of people per square kilometre is about 24, thus rural areas lack the people and economic activity to attract transport infrastructure development. Mozambique's classified road network density per land area is 29km per 1 000 square kilometres. This is one of the lowest in the Southern African sub-region, alongside Zambia with 25km per 1 000 square kilometres and Angola with 29km per 1 000 square kilometres[91]. Only 6 000km out of a total of 37 000km of roads are paved. This is once again one of the lowest ratios in Southern Africa. There are furthermore large regional discrepancies in the road network. For example, in Gaza it is estimated that there are only 134km of "good roads", compared to 2 064km in Niassa. Global companies that operate in the mineral rich regions of Mozambique actively seek agreements with the government to improve on the limited and poorly maintained infrastructure. However, maintenance of the rapidly expanding roads has been identified as a big hurdle, institutionally and financially.

Result: *long travelling times create economic costs*. Poor road infrastructure compounds actual travel distances to result in long travelling times. GIS road sector analysis in 2007 estimated that only about a quarter of rural Mozambicans lived within 2km[92] of *any* road in the classified road network. **Figure 10** below indicates travel times to major urban centres as estimated by the World Bank in 2012. The dark regions are the furthest away from urban centres:

[87] http://data.worldbank.org/indicator/SH.XPD.PUBL
[88] http://www.globalizationandhealth.com/content/8/1/37
[89] http://data.worldbank.org/indicator/SH.XPD.OOPC.ZS
[90] http://www.ine.gov.mz/estatisticas/estatisticas-sectoriais/transporte-e-comunicacao/transportes-comunicacoes-2013.pdf/view (Portuguese source)
[91] http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5885
[92] http://www.worldbank.org/transport/transportresults/program/dc-03-07/gis-in-road-sector-analysis.pdf

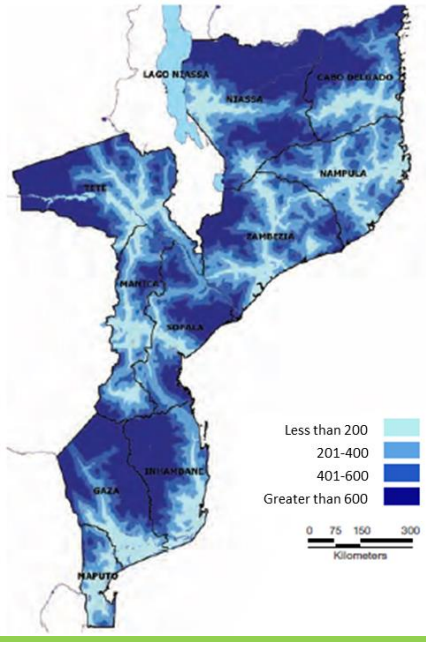

Figure 10: Travel distance to urban centres (in minutes)

Source: World Bank (2012)[93]

Development corridors to boost export and imports, but do not connect the urban-rural population. There are three major infrastructure development corridors in Mozambique:

- The first is the *Nacala railroad.* It is meant to connect the Nacala Development corridor to the Central East African Railway (CEAR) of Malawi.
- The second corridor is the *Beira railroad*, which is the oldest railway system in Mozambique; it is meant to connect Beira to the city of Harare in Zimbabwe and is a crucial line for the coalfields in Moatize.
- The third corridor is the *Maputo railroad*, which links the capital of Mozambique to the industrial hub of South Africa, namely Johannesburg[94].

These development corridors connect economic agents along a defined geography, and are part of Spatial Development Initiatives that promote investment in certain regions of the country. The process is driven by the public sector providing conditions conducive to private sector investment and public-private community partnership[95].

The infrastructural development is transversally developed (West-East), mainly for the purpose of connecting the mining and agricultural clusters within the country to its ports and boarders for export purposes. However, urban-rural connectivity remains low, especially where transport linkages between the food-producing areas in the North and the food import reliant Southern region of Mozambique is concerned[96].

Improving electricity coverage, but large universal coverage gap remains. **Figure 11** below

[93] http://tinyurl.com/oyrgdvq, p42
[94] https://www.pwc.com/gx/en/transportation-logistics/publications/africa-infrastructure-investment/assets/mozambique.pdf
[95] http://www.mcli.co.za/mcli-web/mdc/sdi.htm
[96] http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5885

shows how access to electricity has become more geographically widespread between 2005 and 2012, in which time the number of districts with access doubled. While this is a positive development, it does not mean that access to electricity is common. The electricity provider reported having just over 1m customers in 2011, with approximately 120 000 new customers connected per year. The gap to universal servicing of the total population still remains high, though, at almost 25m people. The quality of electricity provision is deemed to be relatively reliable[97], with 3.1 power outages in a typical month with an average duration of 3.2 hours[98].

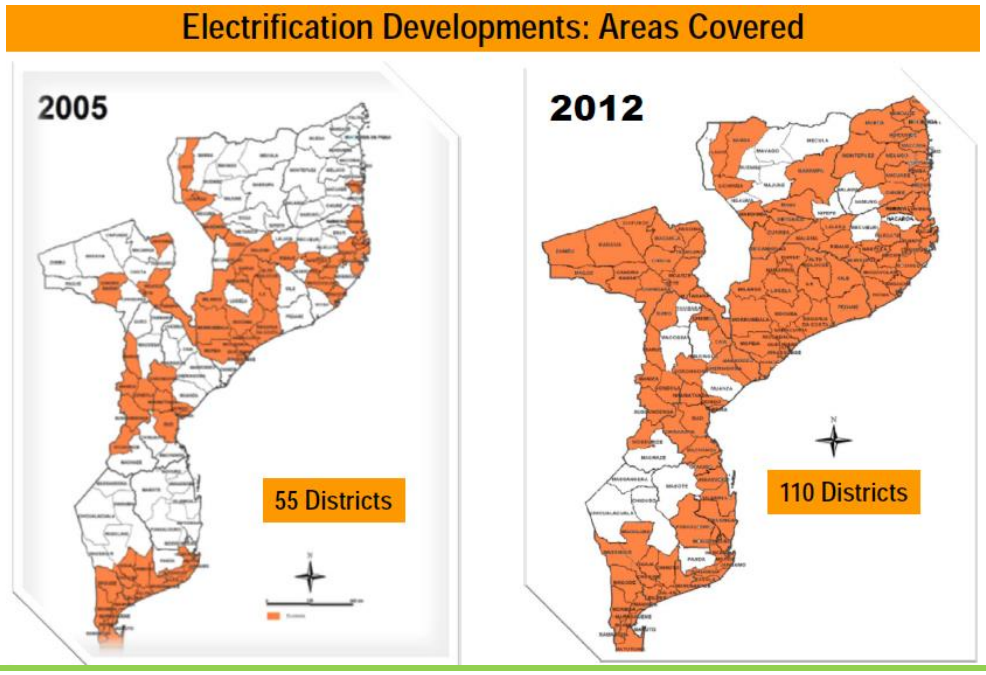

Figure 11: Distribution of electricity, 2005 to 2012

Source: Electricidade de Mozambique[99]

Access to water and sanitation in rural areas remains poor. Access to improved sanitation facilities and piped water sources impact the standard of living of many households in Mozambique. There are, moreover, large disparities between urban and rural areas. According to World Health Organisation statistics for 2012, only 47% of the total population has access to safe drinking water. In rural areas, this figure reduces to 29%, meaning that 7 out of every 10 rural inhabitants face challenges in meeting this very basic human need. A mere 17% of the total population and 4% of the rural population have proper sanitation. This is one of the lowest coverage ratios worldwide.

Mobile telecommunications reach fair, but not pervasive. Mozambican telecommunications characteristics are not dissimilar to other forms of infrastructure. Urban areas, mostly Maputo, are fairly well connected with little reach in rural areas. As at 2014, the mobile penetration rate was 56%, indicating that just under 11m Mozambicans have access to mobile telephony. There are three MNOs in Mozambique: Telecomunicações De Moçambique (TDM), which owns mCel; Vodacom Mozambique; and Movitel (Viettel)[100]. mCel, the first and largest MNO, had 4.9m subscribers in 2012, Vodacom Mozambique had 2.9m, and Movitel (the most

[97] http://www.usea.org/sites/default/files/event-/Mozambique%20Power%20Sector.pdf
[98] http://siteresources.worldbank.org/MOZAMBIQUEEXTN/Resources/AICD-Mozambique_Country_Report.pdf
[99] http://www.usea.org/sites/default/files/event-/Mozambique%20Power%20Sector.pdf
[100] Buddecomm (2014) Mozambique - Telecoms, Mobile and Broadband - Market Insights, Statistics and Forecasts

recent entrant to the market) had 1.25m[101]. Wireless coverage was 72% in 2012, compared to the Southern African average at 81%[102].

Telephony costs challenging further outreach. It is estimated that mobile telephony remains relative low due to affordability of equipment and usage costs for the consumer. The cheapest entry level telephone costs the equivalent of USD15, as much as 30% of a government worker's salary. And prepaid calls cost 3.6 meticais (or USD0.08) per minute. Revenue per customer is relatively low, providing little incentives for MNOs to expand mobile infrastructure to rural areas, where income levels are much lower[103].

Urban focus changing in recent times. Of the portion of the population with access to a mobile telephony, 60 to 70% of subscribers are concentrated in Maputo[104]. Only 5% of the population has access to the internet. The high mobile penetration rate in Maputo points to much thinner coverage in the rest of the country and especially in rural areas. While the original two MNOs largely focused on urban areas for roll out their services, Movitel (a new entrant to the market), has a built 2 500 base stations that have extended reach to most of the country's districts and highways, including significantly higher access to rural areas[105].

Competitive shifts in MNO landscape. In the absence of an extensive rural banking footprint in the form of traditional bricks and mortar branches, digital distribution channels can play a significant role in increasing financial inclusion. The Mozambican context as it stands poses a challenge due to the limited rural mobile access. However, incentives for expansion into rural areas and competitive (more affordable) pricing are increasing. Notably, the entrance Movitel in 2013 introduced more competition in the Mozambican telecoms sector and saw a reduction in prepaid prices as a result. In addition, its rural agent based model has contributed to a growth in reach in rural areas.

3. Regulatory and Policy Environment

3.1. Policy environment

Twenty four years of policy development. Since 1991, with the winding down of the civil war and the beginning of the liberalisation of the Mozambican economy, there has been ongoing technical input and assistance from international organisations and key donor countries that have jointly with the Mozambican Government crafted key policies and policy-based operational interventions aimed at the development of the financial services industry.[106] Over the past twenty years, there has been very close alignment between the various policy instruments, initiatives and directions on the one hand, and material changes in the regulatory framework on the other. This indicates that policy statements and particularly policy instruments are not merely statements of intent or direction but act more as reform implementation schedules. It therefore becomes important to analyse current policy

[101] Research ICT Africa (2012) http://www.researchictafrica.net/publications/Research_ICT_Africa_Policy_Briefs/RIA_Mozambique_Policy_Brief_June_2014_No_5.pdf
[102] GSM Wireless Intelligence, 2012
[103] Mozambique Telecoms: Time to Consolidate and Privatise at http://www.ventures-africa.com/2013/09/mozambique-telecom-consolidate-privatize/
[104] Accenture (2014) Unlocking the potential of the Internet: A Scoping Study in the Mozambique Regional Corridors of Beira and Nacala at http://a4ai.org/wp-content/uploads/2014/04/MRGP_Public-Point-of-View_Final.pdf
[105] http://www.frost.com/prod/servlet/press-release.pag?docid=287756927
[106] FSTAP 8 phases from 1991 to 2012, IMF Policy Support Instruments,2010-13, 2013-2015, Financial Sector Development Policy Operation, Other Donors and program initiatives GIZ, DFID,

instruments to understand the intended blueprint of the financial regulatory environment in the short to medium term.

Financial inclusion incorporated in official policy. Financial inclusion concepts are entrenched in official government policy. Therefore, regulatory actions in pursuit of financial inclusion will mostly be consistent with current government policy, to the extent that any action is consistent with the particular interpretation of financial inclusion elements within official policy.

First Programmatic Financial Sector Development Policy Operation (FSDPO I) 2014-15

The most recent policy instrument consists of three pillars:[107]

1. Financial Stability;
   - *Key performance Indicators*:
     i. Percentage of banks classifying their Non-Performing Loans (NPLs) according to the new regulation.
     ii. Percentage of banks implementing the new risk management guidelines.
     iii. Percentage of deposits balances and accounts covered by the Deposit Guarantee Fund (DGF).
     iv. Criminalization of terrorism financing.
2. Financial Inclusion;
   - *Key performance Indicators*:
     i. Number of e-money accounts.
     ii. Percentage of the population with access to formal banking services, including "formal-other".
     iii. Call for proposals from service providers to apply for a private credit bureau license or operate the bureau on behalf of BdM.
     iv. Percentage of banks disclosing to consumers the effective cost of banking services.
     v. Number of days to clear a cheque.
     vi. Percentage of transactions settled through the Real Time Gross Settlement System (RTGS).
3. Long-Term Financial Markets.
   - *Key performance Indicators*:
     i. Number of short and medium-term bonds issued and reopened in the domestic market through competitive auctions.
     ii. Level of dematerialization and immobilization of all medium and long-term debt securities listed in Central Securities Depository (CSD).

[107] World Bank, IMF First Programmatic Financial Sector Development Policy Operation, Republic of Mozambique

Comprehensive framework fits the Mozambican context. It could be argued that the three-pillar policy approach does not have a particular focus and spreads resources widely over many fields, but in Mozambique, where development requirements are so broad and where the time frame is not short-term, it makes sense to tackle all three pillars, provided the initiatives are well co-ordinated.

No policy focus on informal services. Access to non-bank formal services has received some policy emphasis, but the observed growth in numbers of people being served by informal services[108] is not effectively dealt with in policy objectives.

3.2. Regulatory framework

3.2.1. Court system

Parallel legal system. As briefly discussed in **Section 2: Context drivers of market development**, the Mozambique legal system has been strongly moulded by both customary law and Portuguese Law, the latter of which was introduced during the colonial era. Portuguese law is a civil law system with significant continental European influences (Spanish, French and German). The Portuguese ordinances and civil codes that were introduced into Mozambique resembled those introduced across the Portuguese colonial empire. There is no *stare decisis* doctrine nor common law tradition and therefore there is a high level of dependence on effective and timely legislation and impartial and skilled judicial officers. The civil law cannot take cognisance of traditional or customary practices unless explicitly enacted or promulgated.

During the colonial era, Portuguese civil law formally supplanted customary legal systems, but the indigenous or customary based systems continued to function outside of the formal legal system. After independence, much of the original Portuguese civil law was restructured in a process commonly referred to as "the breaking up of the colonial state". The restructuring process created space for community courts, which in time became aligned to traditional leaders applying indigenous law. This enabled customary courts to re-establish to the point where an official framework was legislated in 1992, followed by formal recognition in the Mozambique Constitution of 2004 (Article 223 no. 2).[109]

The diagram below depicts the way in which the two systems (civil law above the line, customary law below the line) run in parallel:

[108] Finscope (2014)
[109] 2 De Sousa Santos, Boaventura, "The Heterogeneous State and Legal Pluralism in Mozambique", Law & Society Review, Vol. 40, No. 1: 39-76, 2006

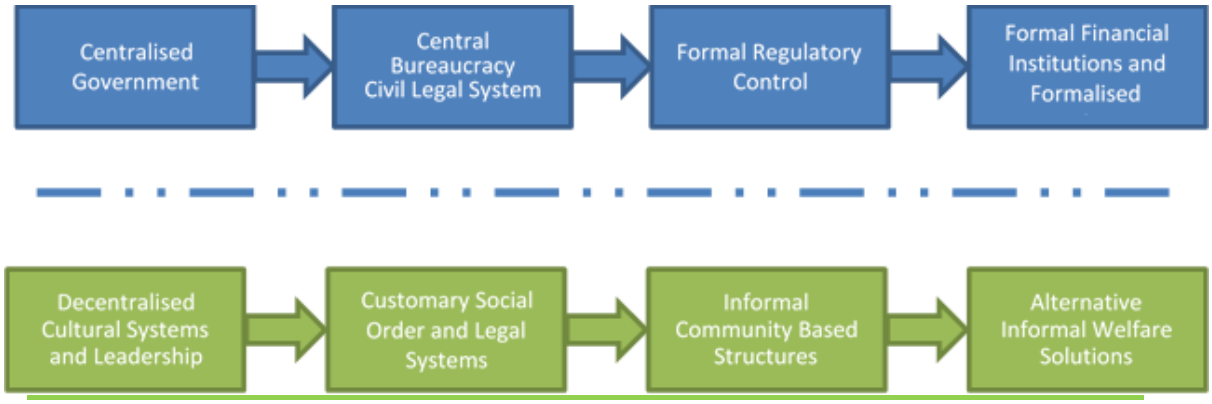

Figure 12: Graphical representation of the parallel legal system

Source: Authors' own

Community courts provide justice and recourse at local level. Today, community courts are very widespread. Community courts are formally recognised centres of justice with duly appointed presiding officers. They deal predominantly with smaller value civil claims and petty crimes with penalties of up to 30 days imprisonment. As stated above, there is no common law tradition in Mozambique. The implication for the community courts is that the decisions of community courts cannot set legal precedents and therefore the impact of any decision is limited to the parties to the dispute. Nevertheless, due to relative informality, cost effectiveness, locality and alignment with local ethnic, religious or customary practice, community courts have become the *de facto* source of justice and dispute resolution for vast numbers of Mozambicans. The community courts, thus, strike a balance between access to justice, moral ethnic legitimacy and substantive fairness[110].

Formal sector operates only in civil court system. Despite the prevalence of community courts, financial transactions that touch formally regulated institutions are almost always contracted in terms of civil law processes and rely predominantly upon civil court enforcement which is largely urban based. Informal and interpersonal financial transactions are contracted in either civil law or equivalent customary legal principles, or both, and are adjudicated in either provincial civil courts or community courts as agreed by the parties, provided the transaction value is within the applicable court's jurisdiction.

High costs and barriers to formal recourse. Formal civil procedure tends to be centralised, time consuming and costly, despite the creation of specialised commercial courts. The implication is that when Mozambicans interact with formal financial services, they are put in a position where they are at a disproportionate disadvantage in that they are required to resolve formal contractual disputes in courts that would generally require high transport costs as well as other high transaction costs due to court and related legal or administrative fees. Typical cost percentage per claim is 119% excluding transport and legal enforcement on average takes 760 days[111].

Resultant contract enforcement challenges create consumer protection concerns. During discussions in the financial services industry, it became apparent that due to the difficult enforcement processes, some financial services institutions require borrowers to sign

[110] David Pimentel, Legal Pluralism in Post-colonial Africa: Linking Statutory and Customary Adjudication in Mozambique, 13 Yale Human Rts. & Dev. L. J. 59 (2011)
[111] World Bank *Doing Business* 2015.

promissory notes in blank as a means of shortening legal proceedings by utilising the abbreviated liquid claim process.[112] This practice represents a material risk and obstacle to a borrower, requiring the utmost trust that a credit institution would not abuse an instrument signed in blank. The extrajudicial nature of the shortened legal collection process represents a further risk to less informed consumers as there is limited opportunity to enter any defence to an action based on promissory notes. Judicial oversight on these types of matters only occurs at the point of issuing a writ of execution in respect of the debtor's property.

Expanding formal financial inclusion will put further strain on civil court system. As formalised financial services expand to reach previously excluded people, there is likely to be a reduction in transaction values coupled with logistical expansion, resulting in a growing proportion of low-value civil law contracts dependent on civil court enforcement in outlying areas. Legal and collection costs can easily eclipse the value of collectables, thereby rendering lower value loans uncollectable to a significant degree. Collection agency costs typically range from 25% to 35% of the principle value of urban SME loans and escalate further for personal loans, depending on the age, value and location. The implications of increased numbers and a wider distribution of lower-value loans with limited and costly enforcement facilities would likely be a higher interest margin requirement, higher personal credit criteria and higher minimum loan values to accommodate collection and legal charges through a legislated form of the *in duplum* rule, limiting the amount claimable from the debtor to the principal debt plus limited arrears and some legal and collection costs not exceeding a proportion of the principal debt.

Financial inclusion implications: split between urban, formal and rural, informal markets. With regards to financial inclusion, the main implications of Mozambique's pluralistic legal system is that the majority of low-income individuals access judicial remedies through community courts, while formal financial contracts are intended to be adjudicated in civil courts. This creates a divide between predominantly urban-based formal financial services and growing informal community based financial services and traditional forms of wealth intermediation. Practically the implications of such polarisation are that formal financial inclusion is concentrated in urban areas and the different customary and religious courts underpin a healthy growth in informal financial services both in rural and urban areas where either:

- The utility of formal financial services and formal legal practice does not coincide with localised community customs and values;
- There is no current effective access to civil law processes that underpin formalised financial services; or
- There is little appetitive on the part of financial service providers to intermediate in local economies due to the availability, cost or absence of formal legal enforcement coupled with low concentrations of monetised wealth.

Access to civil courts and the reliance on more local community courts are therefore two important factors that underpin the rise in informal financial services that are more in line with the geographic location and local customs of the people they serve. The role of informal financial services will be a recurring theme across the rest of the MAP analysis.

Potential for leveraging community-level justice also for formal financial services. The pluralistic legal framework presents opportunities to the State and financial services industry to appropriately integrate lower-value financial service matters, including contract

[112] See Also: *Bank loan agreement: The provision of blank promissory notes as collateral*, Sal & Caldeira, October 2014

enforcement and consumer recourse, within localised community courts in decentralised areas. Community courts are a potential enabling mechanism for the expansion of low-value and lower-risk financial services into rural areas. Customary legal systems have survived the colonial era, the revolution, the socialist restructure, the civil war and the liberal restructure. These age-old systems thrive to this day as they remain relevant, accountable and accessible; much like the intended social position of financial services.

However, capitalising on community court remedies would require some financial intermediation skill transfer to presiding officers and a harmonisation process between civil law contractual terms and the different customary legal positions. A significant hurdle would be to engender an understanding of legal pluralism within financial institutions, which are largely geared towards civil law processes and establishing the business case around the efficacy of dealing with clients in terms of the clients own core customary principles. If further harmonisation is not possible, informal financial systems and processes will continue to develop around the customary legal systems and formal financial systems will likewise continue to polarise around the civil legal system.

3.2.2. Relationship between government, regulators and industry stakeholders

Centralised bureaucracy. Mozambique has a longstanding tradition of centralised bureaucratic structures. The necessary regulatory style required to support centralised administrative power has been re-imprinted since early colonial times and is a fundamental consideration in understanding the regulatory landscape and the broader implications for financial inclusion. There has always been a distinction between the “paved” urban areas and the “unpaved” rural areas, beyond the effective influence or interest of the centralised system of control.

Limited consultation. Aligned with centralised administrative control structures, financial regulation originates centrally in isolation, largely without substantive industry consultation, although there have been some recent examples of broader consultation. In instances where there is consultation, it is not in the conception and development phases but rather at the final draft stage, approaching promulgation. The state also has a policy of not consulting on interventions that the financial industry might see as restrictive of certain practices.

During discussions with the different divisions of the regulator, an underlying concern was voiced that the regulator needed to maintain control and impartiality, guarding against becoming too integrated within the financial services industry, which could lead to a position where the industry’s interests become paramount at the expense of the wider public or state’s interest. Whilst this is always a valid concern for regulators, in the instance of Mozambique, no overt sign was observed of any breakdown in control and impartiality, indicating any material current risk of the regulator becoming subjugated to the industry. Without evidence to the contrary, it remains a theoretical apprehension, but one that likely drives behaviour.

Upside: compliance benefits. Centralised regulation combined with a civil legal system has positive implications and possibilities for financial inclusion in promoting compliance of centralised policies, particularly where longer-term policy objectives do not coincide with more immediate commercial considerations. An example is the sudden regulation of banking fees, through Aviso 5/2009, to promote wider utilisation and social utility by reducing specific service charges. This effectively forced financial institutions to either operate at higher

efficiency and scale or to cross subsidise marginal accounts or services with revenue from other more elastically-priced service offerings.

Downside: non-collaborative relationships, distrust. However, a political economy that does not emphasise transparency and industry collaboration can lead to friction between regulators and industry stakeholders. There appears to be underlying barriers of trust between the regulators and some industry participants. Some stakeholders were only willing to speak in the strictest of confidence, raising concerns about possible repurcusions for speaking out. During industry consultations, some providers felt that a lack of transparency and open consultation created risks for the industry. If advances are to be made in financial inclusion, such barriers of trust need to be addressed in order to advance substantive cooperation between regulators and industry stakeholders.

A heavily state-controlled regulatory inclination tends not to solicit divergent viewpoints and does not leverage the intellectual capital in the financial services industry. With limited industry input into regulatory actions, the industry becomes exposed to the technical skill, foresight and ability of a very limited number of people within the regulator, who are not commercially engaged in the industry. There is scope for more dynamic regulatory approaches that preserve the integrity and authority of the regulator, whilst cooperatively advancing the financial services industry and using its intellectual capital in achieving social goals.

3.2.3. Financial regulators

The two primary financial regulators are the Bank of Mozambique (*Banco de Moçambique* - BdM), which has authority in a broad array of financial sector issues, including the supervision of all credit institutions (which include commercial banks), and the Institute for Insurance Supervision in Mozambique (*Instituto de Supervisão de Seguros de Moçambique* – ISSM), which is the insurance supervisor. Below, the role and ambit of each is considered in turn.

Banco de Moçambique

Value of national currency as primary mandate. The BdM was established as an organ of state by the Organic law 1 of 1992 (Organic Law). The Organic Law establishes the BdM's primary mandate as maintaining a stable currency. Furthermore, it provides that the BdM must oversee the following ancillary objectives:

- Monetary policy;
- Credit policy to promote economic and social growth and development;
- Foreign exchange management to meet international trade needs; and
- Discipline and regulation of banking activity.

The Organic Law also provides additional authority and constraints regarding BdM's ability to act, which in turn influences the manner in which it may exercise further broad powers conferred on it by other overarching legislation. The manner in which the Organic Law is structured is that ancillary objectives only exist and are solely exercised in pursuance of the primary objective[113]. Furthermore the BdM may only pursue objectives in compliance with

[113] Law 1/92 of 3 January, Organic Law of the Bank of Mozambique, Article 3**.**
1. The principal objective of the Bank of Mozambique shall be to maintain the value of the national currency.
2. **In the pursuance of its principal objective**, the Bank shall also have the following aims:

current government policies. Therefore the seemingly wide ambit of the Organic Law is legally constrained to actions in keeping with current government policy and solely aligned to the maintenance of the monetary value of the local currency.

Implications for financial inclusion mandate. The BdM plays a substantial role as far as financial inclusion is concerned – and it is noteworthy that the ancillary objectives established by the Organic Law explicitly include development. Yet any actions by BdM in pursuit of financial inclusion objectives would also need to have a direct causal link with maintaining the value of the national currency in order be valid in terms of the Organic Law. This law is the legislative basis for the establishment of the BdM and is the primary source of delegated regulatory authority which the BdM exercises with regard to the financial services industry.

Theoretically this means that credit market policy and regulation for instance cannot be a valid BdM objective in its own right in order to promote social welfare, it can only be a valid BdM objective where the particular action has a plausible link to maintaining the national currency and is consistent with current government policy. In the above mooted example, controlling credit extension and interest rates are valid BdM objectives, not due to any direct impact on social welfare, but exclusively due to any positive impact on the value of the currency. Equally, regulatory interventions that undermine broad-based social welfare will likewise be valid BdM actions as long as the stable value of the currency is thereby promoted.

These legislated objectives, therefore, have implications for how the BdM might act with regards to various issues. For example, where an issue such as market conduct or market competitiveness arises, the BdM would be legally constrained to act unless there was a material link to maintaining the value of the national currency through monetary policy. This implies that the BdM is limited in how effectively it can address matters such as market conduct and competition, or appropriately support financial inclusion with the main objective of broader social welfare[114].

The extent to which this theoretical limitation translates into an issue in practice is, however, not clear. At the least, it creates a risk that the BdM may be found to act outside of its mandate in pursuing certain financial inclusion objectives.

ISSM

Young standalone regulator with roots in the Ministry of Finance. Following the termination of the monopoly of the state insurer, the duties of supervision of the insurance sector was shifted to the Ministry of Finance. In 1999, the Mozambican government passed legislation paving the way for the formation of the insurance regulatory body – Inspecção Geral de Seguros (IGS). In the most recent reform of the insurance regulatory framework, the mandate

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a) to promote a correct monetary policy;
b) to guide credit policy in such a way as to promote the country's economic and social growth and development;
c) to manage foreign exchange resources in such a way as to maintain an adequate level of means of payment to meet the country's international trade needs;
d) to discipline banking activity.
3. In its pursuance of the objectives defined in paragraphs 1 and 2 of this article, the Bank shall comply with Government policies.

[114] In order for the BdM to maximize its effectiveness in such area, either the objectives within the Organic Law would need to be amended or in the alternative, other state agencies within the Finance Ministry would need to be mandated with specific objectives and authority over each discipline. For example, this could include a financial services authority or a credit regulator with powers that cut across all regulators and centres of authority. Whether the creation of another government entity is feasible or advisable is outside the scope of this study.

of the regulatory body was broadened and renamed the *Instituto de Supervisao de Seguros de Moçambique* (ISSM). The ISSM was created as regulator and independent supervisory authority by *Decreto-Lei No. 1/2010, 31 Dezembro de 2010* (the Insurance Act) and *Decreto No. 30/2011, 11 Agosto 2011* (regulations to the Insurance Act). Thus it is a fairly new standalone regulator operating under a new regulatory framework[115].

Authority over insurance and pensions sector. The ISSM's authority includes:

- The supervision and inspection of entities pursuing insurance activities, insurance intermediation, reinsurance as well as the management of supplementary pension funds (Article 5(2) – Conselho de Ministros).
- The supervision and subsidiary inspection of the execution of mandatory social assistance directed by the INSS and the Workers Pension Fund of the BM (Article 5(2) – Conselho de Ministros).

Provisions for microinsurance[116]. The Insurance Act does not make any explicit mention of a development mandate, but does include provisions for microinsurance. Microinsurance can be underwritten by all authorised insurers and is described as "an integral part of the insurance activity in this country" (article 42(1), Insurance Act). Consultation with the ISSM has suggested that the supervisory entity is enthusiastic about the scope for microinsurance and it has expressed a willingness to make appropriate adjustments to the legislation in support of developing markets and providing value to clients. Examples of facilitative elements include concessionary capital requirements on microinsurance, allowing for mutual insurers, a wide set of distribution channels[117], no restrictions on commission levels and, in general, the creation of a tiered regulatory regime. The microinsurance and low-income definitions within the microinsurance regime focus on wider access to insurance and are not merely on micro products.

Woven into the Insurance Act in an integral manner. Microinsurance has been fully integrated into the Insurance Act, creating a two-tier system for both underwriting and intermediation, including a concessionary regime for microinsurance. The approach leverages existing insurers while also allowing for new dedicated microinsurers. The authorised mainstream insurers and intermediaries can underwrite and distribute microinsurance without obtaining a separate licence and simply need permission to do so. Further, mainstream insurers with either a life or general insurance licence may underwrite composite microinsurance products. The microinsurance regime, nevertheless, still requires further amplification in the regulations, including benefit levels that still need to be calibrated and which is under consideration within the ISSM.

Framework for insurance evolving quickly: Yet work remains. The ISSM has been proactive and deliberate in seeking to create a regulatory framework to facilitate development. While there

[115] Before the promulgation of the Insurance Act, insurance contracts were regulated by the Commercial Code of 1888. The Commercial Code of 1888 was repealed in 2005 and replaced by the *Decreto-Lei No.2/2005* (27 December) with a new Commercial Code with no legislation specifically covering insurance contracts except for aspects related to cooperative societies and shipping contracts. The result was an inappropriate regulatory framework for insurance between 2005 and 2010 as this aspect of the law was not covered under the Insurance Act of 2003.

[116] The analysis below draws directly on the unpublished 2012 Access to Insurance in Mozambique diagnostic (Chamberlain et al, 2012), which analysed the insurance regulatory framework and the provisions for microinsurance in detail.

[117] On the intermediation side, the Act has enabled multiple distribution channels, including distribution by "special intermediaries" such as mobile operators that could catalyse the retail insurance in the country. The Insurance Act stipulates that the "specific" microinsurance intermediaries (i.e. MFIs, NGOs, banks, MNOs etc.) can only intermediate for a single operator in either life or non-life (article 57(3)).

are some elements that will require further consideration, the acts provide a useful framework for microinsurance. However, it is apparent from the market analysis in **Section 6.4: Market for insurance**, that the insurance market is not yet making use of these provisions to a significant extent, in line with the very constrained ability to branch out into the lower-end retail insurance sector. Given the extent to which the Insurance Act has tried to accommodate multiple approaches, one of the key challenges will be to ensure that the various options are harmonised into an integrated framework. Specific attention will also need to be given to the implementation of regulation to ensure that the supervisory cost and compliance burden is minimised.

3.2.4. Classification of financial service providers

The table below outlines the various classes and types of financial service providers in Mozambique (as also outlined in **Section 5.1: Institutional landscape**, indicating the relevant regulatory authority for each type, the extent of prudential supervision and/or monitoring, and the main applicable legislation. A "Credit Institution" is a general categorisation of financial service providers which includes most financial services except insurance related entities.

<table>
<tr><th colspan="2">Regulatory/Supervisory authority</th><th>Degree of supervision</th><th colspan="2">Regulated entities</th><th>Main legislation</th></tr>
<tr><td rowspan="13">Banco de Moçambique</td><td>Supervisory Division</td><td colspan="4">Credit institutions</td></tr>
<tr><td rowspan="4">Banking Supervision</td><td rowspan="12">Subject to Prudential Supervision</td><td colspan="2">Commercial Banks</td><td rowspan="9">Law on Credit Institutions and Societies Financial - Law n º 15/99</td></tr>
<tr><td colspan="2">Finance leasing companies</td></tr>
<tr><td colspan="2">Factoring companies</td></tr>
<tr><td colspan="2">Investment companies</td></tr>
<tr><td rowspan="5">National Payments Division + Bank Supervision</td><td colspan="2">Electronic currency institutions</td></tr>
<tr><td colspan="2">Other firms</td></tr>
<tr><td colspan="2">Credit Card issuers or management companies</td></tr>
<tr><td colspan="2">Venture Capital companies</td></tr>
<tr><td colspan="2">Money Exchange</td></tr>
<tr><td colspan="2">Microfinance Operators</td></tr>
<tr><td rowspan="4">Banking Supervision</td><td rowspan="4">Micro Banks</td><td>Savings and Credit Bank</td><td rowspan="4">Regulamento das Microfinanças - Decreto nº 57/2004</td></tr>
<tr><td>Rural Financial bank</td></tr>
<tr><td>Savings bank</td></tr>
<tr><td>Postal Savings Bank</td></tr>
</table>

Regulatory/Supervisory authority		Degree of supervision	Regulated entities	Main legislation
		Subject to Monitoring	Credit Cooperatives	Regulamento das Microfinanças - Decreto nº 57/2004
			Savings & Credit Organizations	
Instituto de Supervisao de Seguros de Moçambique (ISSM)		**Insurance Companies**		
		Subject to Prudential Supervision	Short Term	Insurance Law 2010
			Life	
			Health	
Banco de Moçambique		**Other Institutions**		
		Subject to Monitoring	Microcredit Operators	Regulamento das Microfinanças - Decreto 57/2004
			Deposit Taking Intermediaries	

Table 6: Regulated financial institutions

Source: BdM, ISSM

Broad array of entities under BdM authority. Law 15/99 (Credit Institutions and Finance Companies Law), Law 02/2008 (National Payment System Law) and Decree 57/2004 (Microfinance Regulations) established the powers of the BdM over:

- Credit Institutions (banks, finance leasing companies, credit cooperatives, factoring companies, investment companies, micro-bank and electronic currency institutions);
- Finance companies (finance brokerage companies, brokering firms, investment fund managers, property management companies, risk capital companies, group purchase managers, credit card issuers or managers, foreign exchange bureaux and discount houses);
- Payments systems (payment system networks, operators and participants); and
- Microfinance operators (savings & credit organizations, microcredit operators and deposit brokers as defined regulatory categories). The demarcation between micro-banks and MFIs is not that clear cut. The term "microbank" is based purely on the licence that it operates under and could in form be operating as a MFI.

The regulatory framework thus spans a number of licensed activities that allow for a complex array of financial service companies, each with their own idiosyncrasies that have over time been designed and accumulated for particular purposes aimed at expanding different types of financial services.

This strategy has resulted in a complex and onerous regulatory environment, with a high requirement for technical expertise and complex systems. The impact has been significant take up of licences in only six of the sixteen main Credit Institution licence types and three Insurance License types, despite the significantly reduced capital requirements. One aspect that may explain the relatively low take-up of certain licence types is that the potential market possibly does align with risk-based restrictions and therefore it becomes a better proposition to opt for a less restricted format despite the higher capital requirements. As financial services expand, the demands of such a complex supervisory environment may require consolidation and realignment of the different licence categories.

3.2.5. Prudential management of credit institutions

Moving towards Basel II. The BdM published the Basel II standard in 2013 for implementation in 2014 using the Standard Approach to Pillar 1 risk weighting and a basic indicator approach to operational risk to progress to the standardised/alternative standardised approach in 2015. The minimum capital adequacy is 8%, although branches and subsidiaries of international banks will also be required to comply with the standards set by their parent organisation, where that standard is higher than BdM prudential requirements.

The BdM also stipulates a required minimum reserve ratio of 8% of liabilities, which compares favourably with other developing countries in the region (Angola 15%, Zambia 18%, Kenya 5% and South Africa 2.5%)[118]. The BdM also stipulates that the deposits are exclusively in cash and do not bear any interest[119].

Interest-free reserve requirements. In terms of the Organic Law, the BdM is required to provide interest free loans to the government to the extent of 10% of the previous year's government revenue. This obligation could materially impact compulsory reserve requirement policies to the detriment of credit institutions, particularly where there is a material variance between the government budget in any particular year and the liabilities in the formal banking system. This provision likely underpins the regulation that require the deposit of cash by credit institutions at the BdM, interest free, as opposed to interest-bearing government securities or other liquid instruments.

This requirement may impact the pricing of consumer credit, particularly in instances where interest bearing government deposits are placed with commercial banks. Government deposits are not invested uniformly across all credit institutions and therefore the potential impact differs by institution. The disproportionate investment of government deposits with certain credit institutions, whilst simultaneously receiving interest free funding from the central bank on this regulated bridging facility, has the potential to undermine competition and polarise funding and risk within limited institutions.

The implications for financial inclusion include that liquidity is extracted from the formal financial system (a particularly pertinent issue as will be discussed in **Section 5.1: Institutional landscape**), which contributes to the situation of skewed access to capital found in Mozambique. The requirement also creates a new level of costs for banks. Together, these factors reduce scale and contribute to the limited incentives for down-market retail expansion witnessed among credit institutions.

3.2.6. Payments system framework

Payments framework does not yet adequately manage clearing. The National Payments Systems law has moved the payments services industry in Mozambique a long way forward, but a comprehensive regulatory framework is still lacking which directly impacts the manner in which processes are conducted. For instance the net settlement processes in place, requiring the holding over of net settlements or the handover and manual scrutiny of physical

[118] Central Bank News, March 24 2015.

[119] There is currently a zero rating on exposure to the government and the BdM, including compulsory reserves and BdM intermediated facilities despite a sovereign rating that is becoming more dependent on international hydrocarbon prices. Credit institutions may adopt a conservative view to exposure with implications, particularly in instances where the BdM or government guarantees exposures or provides emergency assistance to an institution with liquidity issues.

cheque instruments, demonstrate a lack of trust and a comprehensive framework of reciprocal clearing rules for the containment of settlement and systemic risk. The holding over of an entire day's settlement not only poses significant risk[120] to participants but also ties up the security of credit institutions[121].

Remittance infrastructure and regulatory framework is not defined. Other than the recent promulgation of a regulatory framework for card and card-based transactions, there is no comprehensive regulatory framework for P2P local and international remittances, including the use of e-money and other cross border payment services operators.

3.2.7. Consumer protection and transparency measures

Central bank's consumer protection objective. As discussed in **Section 3.2.3. Financial regulators**, two of the BdM's ancillary objectives are to "guide credit policy in such a way as to promote the country's economic and social growth and development", and to "discipline banking activity". These objectives are the basis upon which the BdM has an imperative to promote aspects of consumer protection. Although this is secondary to the primary mandate of maintaining a stable currency, the BdM has been active in addressing consumer protection concerns. The most notably example of this is Aviso 5/2009, discussed below.

Aviso 5/2009 strong consumer protection tool. While there is limited take-up of formal financial services in Mozambique, as seen in **Section 4: Target market analysis**, qualitative fieldwork did not pick up any signs of widespread consumer abuse. However, BdM consultations indicated that there was a series of unfair market practices which tried to increase profitability from extracting non-transparent costs from bank clients. In addition, there was a lack of effective competition in the banking sector, and a lack of comparative price information. It was against this background that the BdM passed into law Aviso 5/2009. It set standards for fee and commission disclosure in a comparable format, thereby enhancing consumer protection. It also limits certain transactional fees and prohibits others. While Aviso 5/2009 provided many protections for consumers, there have also been some negative unintended consequences as will be discussed in **Section 3.3. Cross-cutting themes affecting financial inclusion**.

3.2.8. Land, property and collateral

Lack of real land tenure. The topic of land tenure was raised in **Section 2: Context drivers of market development**. All land in Mozambique was nationalised after independence and is the property of the State. As it is not possible to own land, one cannot obtain real rights in property. Therefore land has no real collateral value. That said, there has been an attempt to remedy this situation in the form of a DUAT which is similar to a 50-year lease, but without the same characteristics as a real right. It is also possible to own a structure that is attached to the land that is subject to a DUAT, but there are limited rights to compensation on expiry, expropriation or non-renewal of the DUAT.

[120] A credit institution may go bankrupt after clearing but before settlement, in which case the payment instructions cleared to the agent bank's client base may never be settled and are likely to be problematic to recall once posted to client accounts.
[121] Institutions are required to provide collateral for electronic fund transfer batches, would need to keep such security in place overnight. The value of the eft batches will be large as there is no intraday or end of day settlement. On key financial days, the batch values will be extraordinarily large, which is a significant risk to all participants and could significantly impact the liquidity and prudential compliance of some participants.

The deficiencies in real rights are not that material in practice to property owners, as property can be easily traded and sales are notarised and registered[122]. Farmland is more complicated than urban dwellings in that most rural land is not registered and access to the land is controlled interchangeably by the central government and the traditional local authority. Thus, despite receiving a long-term lease of farmland from the government, the continued tenure on that land is still subject to the local authority and traditional leadership. Practically there are very few disputes, but it does happen that if the lessee does not remain on the land and activity farm, then the land can be reallocated to others in the community.[123]

3.3. Cross-cutting regulatory themes affecting financial inclusion

The discussion above already pointed to a number of ways in which the fabric and contents of the policy and regulatory framework impact on financial inclusion. Each of the product market sections (cross-reference) will pick up on regulatory issues of particular relevance to that product market. Here, the emerging cross-cutting themes are outlined.

3.3.1. Lack of transparency

The lack of a transparent and consultative approach in the development of regulation was discussed in **Section 3.1: Policy environment** above. The resultant regulatory uncertainty stems from at least three angles:

Access to regulatory instruments. Despite a large collection online at BdM, the collection is incomplete and more than one year out of date. A lack of ready access to a comprehensive body of financial and other regulation, both past and current was experienced in the analysis. Many financial institutions interviewed did not have complete and up-to-date regulatory collections. English legal translations are rare. Most regulation obtained in Portuguese are in the form of lower resolution images particularly with the more recent instruments. This challenges engagement by foreign-owned entities outside of the Portuguese countries.

Some regulations are excluded from public dissemination. This aspect was confirmed by both Credit Institutions and the BdM for reasons of market sensitivity.

Regulatory instruments used as a form of disciplinary measure. Regulatory change management has been voiced as a serious concern by interviewees, particularly where regulatory instruments were used as sanctions and where the institutions had been substantially compliant with all regulations in force at the time. The issue raised is the deliberate issuing of snap regulations without warning or transitional provisions. The snap regulatory measures contained swings in regulatory and monetary policy positions that for some institutions took up to two years to unwind balance sheet positions and far longer to recover and proceed with market growth. This type of action is not conducive to a lower risk supervisory environment able to grow.

[122] There are however still restrictions on the sale of parts or units within buildings that were nationalised and for which no compensation was paid to foreign owners. To avoid international claims and entanglements, such parts of buildings are not permitted to be sold to foreign nationals.
[123] Consultation Prof Ali Atumane

3.3.2. Gaps in financial regulation

Unintended impacts of Aviso 5/2009

Unintended consequences. Aviso 5/09 should be commended for its intentions to cap transactional fees and make certain transactions free, thereby reducing costs for consumers. Furthermore, it requires a publishing of fees and prices which is a worthwhile market information development and a positive example for the entire region. However, some terms of Aviso 5/2009 may likely have an unintended negative impact on financial inclusion. For instance, the centralised determination of some prices and the limitation of some types of fees that may be charged may have some short-term upside for financial inclusion, but also has the potential of disrupting the financial services market, as it necessitates providers to offset real costs against unrelated services in a non-transparent way. For example, a lowering of transaction fees may lead to an increase in account or other fees, such as statement fees, to offset costs.

It also locks in a particular business model. For example: banks cannot use prices to incentivise consumers to use electronic channels or agents. Another practical example is encashment fees, which in Mozambique are a material item given costly branch infrastructure and the logistics of constantly moving physical cash between urban and rural areas. Yet no cash deposit fees may be charged under Aviso 5/2009. Barring banks from transparently recovering encashment costs would dissuade the establishment of encashment facilities in logistically expensive areas and could also cause institutions to cross-subsidise encashment with other higher margin fees such as statement and electronic banking *ad valorem* charges.

A more in depth discussion on the implications of *Aviso 5/2009* follows in **Section 6.1: Market for payments**.

Branch and agent banking regulatory requirements

Banking has become more technologically driven with fewer physical logistical dependencies and it follows that the utilisation of branch infrastructure may be changing and decreasing over time. Financial services in Mozambique are at a key point where it would be possible to divert to technology-driven modalities and avoid the burdensome cost of building branch infrastructure that would likely become obsolete in the medium term.

Emphasis on branch roll-out reinforces cash economy. While not found in regulations, industry consultations found that the BdM provides input on where branches should be rolled out. However, encouraging bank branches reinforces the persistence of a cash economy – a storyline that is again picked up in **Section 6.1: Market for payments**. That is not to say that bank branches are not useful community gathering points and also places of financial awareness and education, but the cost and useful lifespan of a branch would require a significant contribution in the form of fees, charges and interest margin from the communities they serve. The appetite to roll out branches at sometimes three times the cost in neighbouring countries will likely not easily find favour in investment committees of commercial banks, particularly when the location of the branch is not entirely up to the bank based on its own marketing strategy – as the consultations suggest to be the case in Mozambique.

Agent banking regulation in the pipeline, but proportionality unclear. The recently published

amendment to the Credit Institutions Law (Decreto 30/2014) relating to the authority of the BdM to provide for agent banking modalities is encouraging. However, details are not yet available as to how this will be developed in subsequent regulations. To realise its full benefit, the final agent banking regulatory framework would need to provide communities with different options such as kiosks, branchless banking, automated banking and service agencies. If, however, the agent banking requirements call for significant infrastructure, this will likely negate the key benefits of agent banking and dampen the pace of financial inclusion.

Definition of deposit intermediation a key consideration. Key to the development of a regulatory framework for points of representation is the question of when deposits are intermediated. The current regulatory framework is clear that deposits are considered to be intermediated when they are accepted by a party for their own account. The acceptance of deposits for safekeeping or as agent of another is likely not considered intermediation by that party, but in a civil legal system, this would require clarification. The issue becomes critical in defining when a person is acting on behalf of a bank as agent or when a person is acting on his/her own behalf, such as a mobile agent who trades with his/her own cash resources.

Other issues to be considered in constructing agent banking regulations:

- The amendment refers to employment of the agent, which implies an employee relationship and not an agency relationship;
- The level of physical security required for agent banking should be proportional to the level of criminal risk and in line with the total amount of money at risk, nuanced for regional context.
- The amendment indicates that approval will be required if a bank wishes to withdraw its agent network from particular locations or areas and such approval is contingent upon factors such as alternative employment for the agent staff and access to other bank agents in the area. This could be a disincentive for banks to develop agent networks, as withdrawal from unprofitable areas could be prevented.

Absence of comprehensive e-money regulations

Lack of regulatory certainty an impediment to growth. The regulatory structure for electronic currency institutions does not provide a sufficient framework on which to expand already technically proficient e-money services. Key clarification required relates to:

- The generation of interest on float accounts on behalf of mobile money balance holders net of float account fees.
- The conversion of net interest to mobile money and distribution to account holders either quarterly, bi-annually or annually depending on materiality.
- Disposal or safekeeping of dormant balances.
- The legality of digital receipts and verification of payments.
- Interoperability between e-money schemes and banking accounts.
- ATM, POS and card based payment compatibility .

4. Target market analysis

Putting the client at the centre of the analysis is a key characteristic of the MAP methodology.

This section explores the needs, realities and characteristics of the various target markets in Mozambique. The section draws primarily on the FinScope 2014 and 2009 survey, as well as the Micro, Small and Medium Enterprises (MSME) survey conducted in 2012[124]. It augments these findings with in-country qualitative reports from individual discussions with Mozambicans from all walks of life[125].

The section starts off by discussing a few cross cutting aspects of Mozambican life based on the qualitative demand-side research, including some of the dreams and aspirations of the Mozambican people, as well as the daily realities they are faced with. It then moves to discuss the take up of financial services in Mozambique. Finally, the analysis is extended to designated target groups within Mozambique, called "target market segments". These are:

- Farmers;
- Dependents;
- Microenterprises;
- *Biscatos* (piece workers / day labourers);
- Salaried workers (except government); and
- Government workers.

Investigating these groups individually allows for a more nuanced understanding of financial services use in Mozambique. The box below outlines the key findings in this section.

Key findings: Target market[126]

Rural-urban divide. Those living in urban areas experience life very differently from those living in rural areas. Urban Mozambicans are more likely to have access to a wide variety of documents that are critical for financial services, such as passports and proof of addresses. This is echoed in their financial services usage, with the urban being more likely to use formal or banked finance, and the rural being more likely to use only informal mechanisms as well as their family and friends. However, even those in urban areas tend use of informal mechanisms while showing overall low acess.

Profiles vary across target markets. The vast majority of agricultural workers are located throughout rural areas, whilst the opposite is true for salaried workers. In terms of income, government and salaried employees lead the way whilst dependents and agricultural workers lag far behind.

Agriculture important for most. All of the target markets have over 50% involvement in agriculture, even if it is not their main source of income, whilst 80% of Mozambicans overall are involved in agriculture. The farmers' target market is also the largest of all of the target markets. This suggests that, even though many adults have another main income source, agriculture is the lifeblood of the country.

Various ways to make ends meet. The population is largely impoverished. To make ends meet, they

[124] For the purposes of the current analysis, the term adult is used interchangeably. When figures pertain to the FinScope 2009 or FinScope 2014 surveys, the term adult is to be understood as those that are aged 16 and above, whilst the MSME survey of 2012 defined an adult as those that are aged 18 and above.

[125] The qualitative works consisted of 60 individual interviews, 6 focus groups and 36 intercept market place interviews. They were conducted throughout Mozambique, with the northern interviews focusing on those linked to agriculture, the central interviews focusing on those linked to tourism and the southern interviews focusing on urban traders in Matola and Maputo. The interviewees were selected based on the social network of a local individual (the gatekeeper) and in such a manner to be as balanced as possible. It should be noted that the qualitative works did not include any unemployed individuals and that the respondents are not in any way representative of the aggregate Mozambican population. Their purpose is merely to give insight into the experiences and perceptions that individuals have vis-à-vis financial services.

not only engage in small scale farming, but also supplement their income various ways. Much of this includes the provision of goods and in-kind services to each other, outside of their main sources of income.

Pervasive informality. The majority of Mozambicans are engaged in the informal sector, with fewer than one out of every 10 adults being part of the formally employed target markets. The vast majority of transactions take place in cash and many Mozambicans engage in non-monetary transactions. Most small businesses, particularly sole proprietors, are unregistered and hence operate without any formal linkage to government.

Mostly financially excluded. Across the countries where a FinScope survey has been conducted, Mozambique ranks second last in terms of overall financial inclusion. Take-up is particularly low in credit and insurance. Only those that have formal employment with government see high levels of financial inclusion, whilst those in rural areas, and particularly women, remain mostly excluded, even from informal financial services.

Formally employed best included. When the market is segmented into smaller subsets, a clear pattern emerges. Those that are formally employed tend to have better access than those who are in the informal sector. Those that have more stable incomes are also better served by informal financial measures than those with unstable incomes.

Transaction and remittance products drive banked financial inclusion. Across all target market segments, people are more likely to be banked (driven primarily by transaction and remittance products) than to use other formal financial services or to use only informal financial services.

Informal savings drive informal financial inclusion. Across all of the target markets, and Mozambicans as a whole, informal savings features prominently. This is the primary vehicle for informal inclusion and consists primarily of savings in kind as well as community based savings groups or *xitiques.*

Those that are financially included use limited portfolio of products. Those that are financially included are generally poorly served, with only 1% of Mozambicans indicating that they have access to a transaction, credit, savings and insurance product simultaneously. In contrast, 15% of adults use only one type of formal financial service. Informal products play an important role in adding depth of usage, significantly increasing the types (credit, savings, etc) of products that Mozambicans have access to.

Needs vary across and within segments. Financial service needs vary across the target market segments. For example: microenterprises users may benefit from products that smooth their cash flow and allow them to save for the purchase of stock at the end of the month, whilst agricultural workers may benefit from products that do not require proximity and that are low cost. There are also different groups of people within each of the segments. For example: microenterprises that have both skills and the drive to succeed may benefit from products that help them to grow their business (such as credit), whilst “survivalist” entrepreneurs may benefit from products that help them smooth their incomes.

4.1. Target Market Context

4.1.1. Societal context

Rural-urban divide. Mozambique has approximately 14.5 million adults over the age of 16. These adults are roughly evenly split by gender, with women (52%) only slightly outnumbering men (48%). When FinScope 2014 is examined to obtain a picture of the Mozambican people, two cross-cutting trends emerge. Mozambique is a largely rural nation, and few people have more than some primary education. There is a rural-urban divide across all aspects of life, including access to documents (such as identity documents, passports and deeds to their property), education, as well as financial inclusion, with those in urban areas having significantly better access.

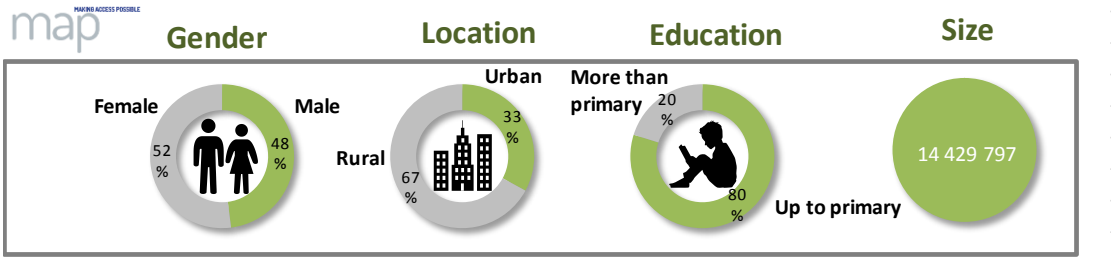


Figure 13: Overview of the Mozambican people

Source: FinScope (2014)

Great value placed on education. Across the qualitative research, education emerges as a critical aspiration for respondents. This dream is not only for their children, but also for themselves as a means to a brighter future. In total, 8% of Mozambicans who save are doing so for an education, compared to 4% for retirement and 8% for starting a future business.

> *"It is important to go to school, but you must also learn a profession. Without education, there is nothing! That is the advice I give to my grandchildren."*
>
> Male, 30-40, Maputo
>
> *"I want my children to reach the highest level of schooling possible. I would like to also complete my own schooling, even if it means going to evening classes."*
>
> Male, 20-30, Imhambane
>
> Q: *"What would you do if you won 300 000 Meticais?"*
> A: *"I would go back to school. I would like to finish my Grade 12."*
>
> Female, 30-40, Matola

Overcoming challenges through unity. The qualitative research indicated that Mozambicans generally deal with crises in their lives by drawing on their community. Many respondents also indicated that, despite expecting nothing or little in return, they would help their fellow community members with what was available.

"My parents and his parents do not work, but when they come to visit they bring along whatever they have to offer… Whenever I have money, I will give it to them, or will give them 1 or 2 kgs of sugar. We help each other with what little we have."

Female, 20-30, Inhambane

Q: *"What is the role of the church when there is illness or death in a family?"*
A: "(We) provide clothes, exercise books, we help in everything we can, we contribute money to help, rice."

Male, 30-40, Matola

"If I struggle, my daughter and daughter-in-law will help me out. I have good daughters and the people from the church will also help me if I have no food or money."

Female, 40 plus, Matola

Community and personal networks forms basis for informal finance. Community based ties and trust extend into financial services, where, as will be indicated in **Section 6.3: Market for savings**, a significant proportion of Mozambicans form informal, community based savings groups with their friends and family, known as *xitiques*. Of those respondents in FinScope 2014 that indicated that they were a member of a *xitique*, 14% indicated that socializing and meeting their family members or friends was part of the reason.

"When everybody has arrived, before we eat, I collect the contributions. (…). Then we party."

Female (*Xitique* leader), 30-40, Matola[127]

A forward looking orientation. The stones game[128] was used to reveal the financial planning preferences of respondents. The game involves a respondent indicating how they would allocate their income by means of allocating a number of stones to various expenditure items. Throughout the qualitative interviews where this technique was used, Mozambicans indicate that they would save a large portion of their income for when they need it in future. Frequently, this is tied to health and food expenses, however many indicated that they would simply save above and beyond these items.

4.1.2. Livelihoods and budget realities

This sub-section considers the insights from the demand-side research on how people make a living and how they make-do with the limited budgets at their disposal.

Struggling to make ends meet. As discussed in **Section 2: Context drivers of market development**, Mozambique is the seventh most impoverished nation worldwide when measured by GDP per capita at purchasing power parity. This, combined with the fact that economic activity is clustered around a few areas, makes for a country with a vast number of

[127] Exact quotation not possible due to translation.
[128] The stones game is a standard qualitative methodology for respondents that to not understand the concept of budgeting. Respondents are given stones and are presented with various needs. They are then asked to divide up the stones amongst the various needs, thereby revealing their budget preferences.

people that face hardship on a daily basis. This is echoed in the qualitative analysis:

> *"We do not have the conditions here, we are crying."*
>
> Male, 40 plus, Niassa
>
> *Q: "What would you do if you won 3000 Meticais?"*
> *R: "Eat the money" … "Food, food, food – what more do you need in your old age?"*
>
> Female, 40 plus, Matola

Few Mozambicans spend on luxury items. The necessity to prioritise basic day-to-day needs in household budgets is confirmed by FinScope 2014, which reveals that the number of Mozambicans spending money on luxury items such as hotel spending (0.4% of adults) or food at a restaurant (2% of adults) is extremely low. This is even more pronounced in rural areas. Instead, they are spending on healthcare (42%), transport (53%) and clothing (49%). The qualitative research reinforces the statistical findings here and adds that many Mozambicans spend on education as well[129].

Cash is king. Cash is the predominant means of transaction. Of those surveyed in FinScope 2014, 68% reported receiving their income via cash, whilst 14% reported receiving it either jointly with some goods or exclusively in goods. The remaining 8% indicated that they receive their income through a bank transfer of some kind.

Most make a living in the informal sector. Just under one in ten Mozambicans make a living in the formal sector, as either government employees or salaried employees. Beyond that, a large portion of Mozambicans are engaged in microenterprises, with estimates ranging from 2.1m (FinScope, 2014) to 4.5m (FinScope MSME, 2012)[130]. In the MSME survey, 87% of respondents indicated that they were unregistered[131]. Of the remainder of the population, the majority is either involved in agriculture or a dependent of someone else.

*More than one income source.*Thirty-one percent of Mozambicans have more than one source of income. This is most prevalent in the microenterprise segment, with 49% of persons in this category reporting more than one source of income[132]. This evidence is strengthened by the qualitative analysis, where the vast majority (including those in the formal sector) indicated that they are engaged in additional activities to make ends meet. Throughout the qualitative research, households indicate that everyone in the home is involved in providing for the household in some manner or another – even those that are elderly, which frequently contribute by selling traditional medicine.

An entrepreneurial society "of necessity". Of the businesses polled in the Finscope MSME survey in 2012, 63% indicated that they started their business out of need, whilst only 18% indicated that they actually saw a market gap. Furthermore, 47% of respondents indicated that they would give up their business if they were offered employment. This is echoed in the qualitative research, which found that many entrepreneurs had no choice but to go into

[129] Education spending was not directly asked in the FinScope 2014 survey.
[130] The discrepancy can be explained at least, in part, due to the different classifications of "who is a small business owner". Whilst the FinScope MSME survey will class an individual as a small business owner if they have any involvement in their own business, FinScope (2014) only does so if it is the main source of income. Given that Mozambicans frequently supplement their income, many small business owners may be captured elsewhere.
[131] FinScope MSME (2012)
[132] FinScope (2014)

business:[133]

> *"If I lose my business that could be the end of me, because I have nothing apart from my business. Without it, how will I raise my kids, I don't know if I will have the power to continue my life, and the life of my kids depends on the bread that I bake."*
>
> Female, 20-30, Imhambane

Aspiring to greater things. Throughout the qualitative interviews, many individuals, such as those selling informal medicine or that sell by the side of the road, indicate that they would like to formalize their activities. If provided with adequate finance, or an opportunity, many respondents indicate that they would like to open a shop. Of those that are involved in agriculture, many indicated that their dream for the future is to sell their produce at the market, or to sell a wider variety of produce at the market.

4.1.3. Financial capability

Very low awareness. Eighty-five percent of Mozambicans do not know what insurance is, or have heard of the term but do not understand what it means, while 74% do not understand the concept of interest. Sixty-nine percent do not know what the term bank branch means and a further 74% of adults do not know what the term Automatic Teller Machine means (ATM). However, bank accounts are better known. When Mozambicans were asked about their knowledge of the term "bank account", only 15% indicated that they have never heard of this term and more than half (55%) indicated that they understand it.

Generally negative view of formal financial services. The qualitative reports indicate that many Mozambicans do not trust banks and other formal financial institutions or the products they offer, or believe that they are "not for them". One respondent remarked:

> *"I have never bought Rands in a bank, I always buy with people, but I know that the banks are expensive. They may broadcast on TV that the rate of exchange is 2.9 Mets, but when you arrive there the price is totally different."*
>
> Male, 30-40, Matola

However, some do recognize the benefit of formal financial services. Throughout the qualitative reports, there is usually one or two products that respondents view as (potentially) adding value to their lives. For example:

> *"It (insurance) is something that can help people."*
>
> Male, 30-40, Niassa
>
> *"I am very happy with the loan (from the district). It changed my life.".*
>
> Male, 20-30, Imhambane

Informal services often preferred – or the only alternative. The deep rooted mistrust and misunderstanding of formal finance has led to a thriving informal financial sector, particularly for borrowing and saving. The qualitative interviews also provide insight into the various

[133] Qualitative Demand Side Research Component (Write up, Nov 2013)

access barriers people face for formal financial services. Notably, those in rural areas often have no physical access to banking infrastructure. Where credit is concerned, formal institutions frequently demand formal collateral for loans, which many poorer Mozambicans do not have. This lack of collateral, or fear of providing it, was one of the principal cross cutting fears that Mozambicans had regarding requesting loans from a bank.

4.2. Take up of financial services

The Financial Access Strand. A key tool in the MAP methodology is the financial access strand. In essence, it is a diagram that breaks down the total adult population according to whether people are financially included or excluded. Within the included population, a further breakdown is then indicated according to the type of financial services (banked, other formal or informal) that people use. This allows for a quick overview of the level of use within a country: in terms of the proportion of adults that are banked, that are not banked but use another form of formal financial services (with the combination of the first two categories being formally included), that are only reached through informal financial services and, finally, the proportion that is excluded. The same approach is then extended to the markets for credit, savings, insurance, remittances and transactions to show the level and type of usage within each market, as well as to the individual target markets. **Box 6** contains an overview of the categories and a discussion of what each entails.

Box 6: The Access Strand Explained

The total access strand has four components. These components are outlined below.

Banked: The percentage of adults that have products with banking institutions. Those that are included in the banked category could also have other formal or informal products.

Formal non-bank: Those that make use of formal financial products from non-bank formal institutions, such as microfinance institutions or insurance firms, but do not have a bank account. However, they may also be using informal financial services.

Collectively, the Banked and Formal groups are classified as the "formally included". This does not mean that they have no usage of informal services as well, only that they do have some type of formal service.

Informal only: The percentage of adults that use informal products, such as community based savings groups or "*xitiques*", but do not have any formal financial services (banked or non-bank). Individuals in this category do not have access to the formal financial system and are therefore classified as "informally included". It is important to note that the informal-only category will not reflect the full extent of informal usage, as it does not consider those that have both a formal and an informal financial service.

Collectively, the Banked, Formal non-bank and Informal only groups are classified as "financially included".

Excluded: The percentage of adults that do not use any financial products, formal or informal.

The access strand may be applied to product markets. In order to gain insight into the financial use by product, the access strand methodology can be extended to individual product markets (Credit, Savings, Insurance and Payments (transactions and remittances)). This approach allows for a more in-depth understanding of how Mozambicans are served within the individual product markets. In the product-level analysis, provision is also made for those who access financial services through an unintermediated channel, namely those that make use of financial services with family or friends

only (whilst making no use of formal or informal financial services). An example of this is those that will save their money with a family member or a friend, but that does not make use of any bank accounts, mobile money or *xitiques*.

Below, the composition of each product strand is explained:

Credit access strand

- ***Banked:*** The proportion of adults that uses credit products such as credit cards, home loans or business loans with a bank. Largest contributor: credit cards with BCM / Millennium BIM and Loan Accounts with collateral at any bank.
- ***Non-bank formal:*** The proportion of adults that uses formal credit products, such as loans provided by microfinance institutions, or the so-called "7milhoes fund", but do not use bank credit products. Largest contributor: District Fund Loans ("7 Milhoes")

  Collectively, the above two form the formal credit market.
- ***Informal only:*** The percentage of adults that makes use of informal credit, such as loans from a money lender or through loans from agricultural associations, but that do not use formal credit. They may also be borrowing money from family or friends.
- ***Family and Friends only:*** The proportion of adults that uses credit only from family members or friends.
- ***Excluded:*** These individuals do not make use of credit products as outlined above.

Savings access strand

- ***Banked:*** The proportion of adults that uses savings products with a bank, such as savings accounts, term deposits and/or savings plans. Largest contributor: savings accounts at a bank.
- ***Non-bank formal:*** The proportion of adults that uses formal savings products, but does not use banking products to save. Examples of these include pension or retirement funds, regular deposits made with a credit and savings operator, or corporate bonds. The largest contributor: pension or retirement funds and savings with credit and savings operators.

  Together, the above two items make up the formal savings market.
- ***Informal:*** The proportion of adults that uses informal savings products, such as *xitiques*, and/or community based groups, but does not make use of formal savings products. Largest contributor: *xitiques*. They may also be saving via family and friends.
- ***Family and Friends only:*** The proportion of adults that saves with family or friends, or saves cash at home that is specifically not for expenses. They do not make use of any formal or informal products.
- ***Excluded:*** These individuals either do not make use of any of the above savings vehicles, or do not save at all.

Insurance access strand

- ***Formal:*** The proportion of adults that makes use of formal insurance products. Examples of these products include motor insurance, hospital plans and third party insurance. Largest contributor: life insurance taken out by the respondent, employer-covered funeral insurance and employer-covered medical aid.
- ***Informal only:*** The proportion of adults that makes use of informal insurance, but does not make use of formal products. Examples of these include funeral arrangements made with

an employer, funeral arrangements made within the community as well as agreements made with the church regarding risks.

- ***Excluded:*** The proportion of adults that does not make use of formal or informal insurance products.

Remittances access strand

- ***Banked:*** The proportion of adults that use bank accounts to send or receive remittances. Members of this segment may also be engaged in formal non-bank remittance activities, informal remittance activities or friends and family remittance activities. Largest contributor: using bank accounts for remittance purposes.
- ***Formal non-bank:*** The proportion of adults that makes use of formal remittances products to send or receive money, which include Kawena, M-Pesa or mKesh, and Moneygram transfers, but do not make use of banking remittance products. Largest contributor: receiving remittances via Kawena and sending remittances via M-Pesa or mKesh.
- ***Informal:*** The proportion of adults that makes use of informal products to remit, whilst not making use of any formal products. They may also make use of their family members and friends to send or receive remittances. Largest contributor: sending or receiving money via minibus taxi.
- ***Family and Friends only:*** The proportion of adults that remits by sending money with friends or family when they travel. Members of this segment do not make use of any formal or informal remittance products.
- ***Excluded:*** These individuals do not remit.

Transactions access strand

- ***Banked:*** The proportion of adults that makes use of transaction products through a bank. Examples of this include having a debit card, a cheque account or savings account. Largest contributor: current accounts, debit cards, and salary accounts (all with any provider).
- ***Formal only:*** This category includes those that use mobile money in order to conduct transactions, such as purchasing airtime, depositing cash or utility payments. Individuals in this group do not make use of banked means to transact. Largest category: purchasing airtime and utility payments.
- ***Excluded:*** These individuals do not make use of formal or banked transaction products or have elected not to use these. They therefore transact exclusively in cash.

Almost two thirds of Mozambicans excluded, less than a quarter have formal access. As can be seen from **Figure 14**, only about one out of every four Mozambicans are using formal financial services, and about 60% of Mozambicans do not make use of any type of financial service. Upon further investigation, exclusion is highest amongst women and those living in rural areas, whilst inclusion is highest amongst men and those living in urban areas. Women are more likely to make use of informal finance, as well as of their network of family or friends (not shown in this strand), whilst men are more likely to use banked financial products. Banked financial access is significantly higher in urban areas, whilst informal financing mechanisms play a smaller role. The converse is true in rural areas.

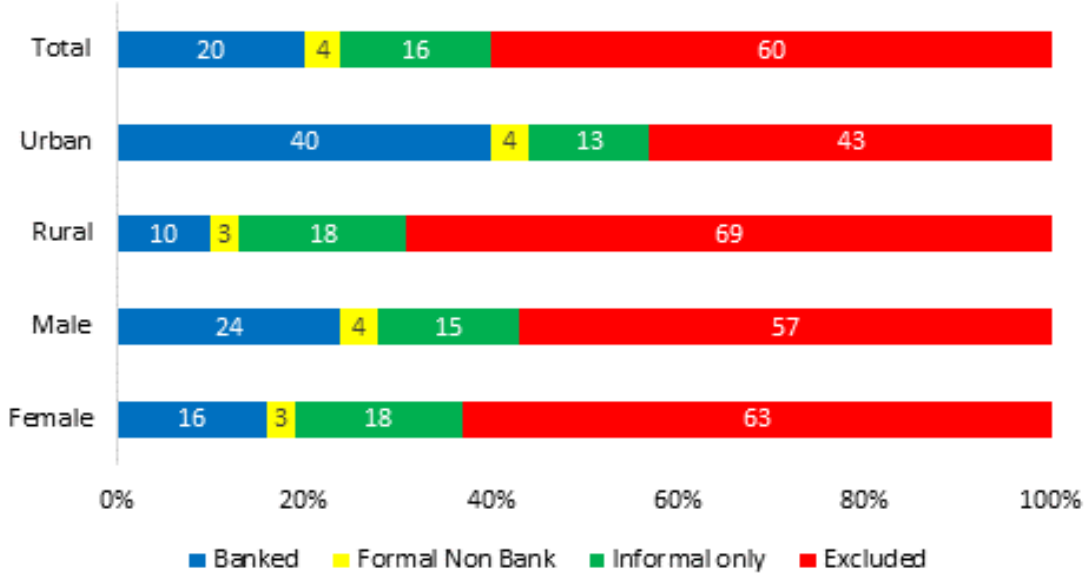


Figure 14: Financial Access Strand in 2014

Source: FinScope (2014)

Significant improvements in financial access. As can be seen from **Figure 15** below, the proportion of included individuals increased significantly from 2009 to 2014 across all access strand components, with the percentage of adults that are banked increasing from 12% to 20% overall, and the percentage of adults who are exclusively informally included increasing from 10% to 16%[134]. Total formal inclusion, whilst small in the 2009 survey, saw considerable growth proportionally, but little growth in absolute terms:

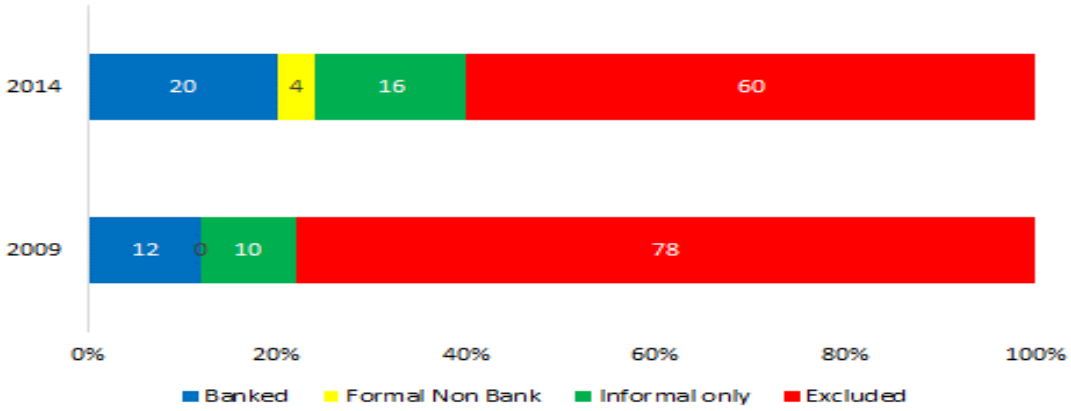


Figure 15: Financial Access Strand comparison: 2009 and 2014

Source: FinScope (2009 and 2014)

Urban areas, males gained proportionately more. Total rural inclusion increased from 14% in 2009 to 31% in 2014, due to gains in both the proportion of rural adults that are banked (10% in 2014 vs. 4% in 2009), as well as the proportion that only use informal services (19% vs. 9%).

[134] It is important to note that the classification of the banked, formal and informal categories do not necessarily remain the same over time and the discussion here thus aims to paint a relative and illustrative picture.

When comparing the difference between urban and rural exclusion over time, however, we see that rural areas have become proportionately less served than urban areas. Total urban inclusion increased from 39% in 2009 to 57% in 2014, with the number of urban adults that are banked rising from 27% to 40% over the period. Comparing male and female, the same trend holds, with females faring better in absolute terms (37% are now included compared to only 21% in 2009), but less so in relative terms compared to their male counterparts, of which 43% were included in 2014 compared to 24% in 2009[135].

Relatively limited overlaps between access strand categories. As the access strand masks some overlaps in usage between categories, it is useful to unpack total usage of banked, formal-other and informal services as well. In total, 28% of adults have informal products (versus the 18% informal-only indicated in the access strand) and 8% have non-bank formal products. When looking at the nature of the overlaps**, Figure 16** below shows that 5% of adults have both a bank account and an informal product, but no other formal product. Very few Mozambicans (4% of adults) make use of all three types of products. Even fewer (only 1% of adults) have a non-bank formal product plus an informal product, but no bank account:

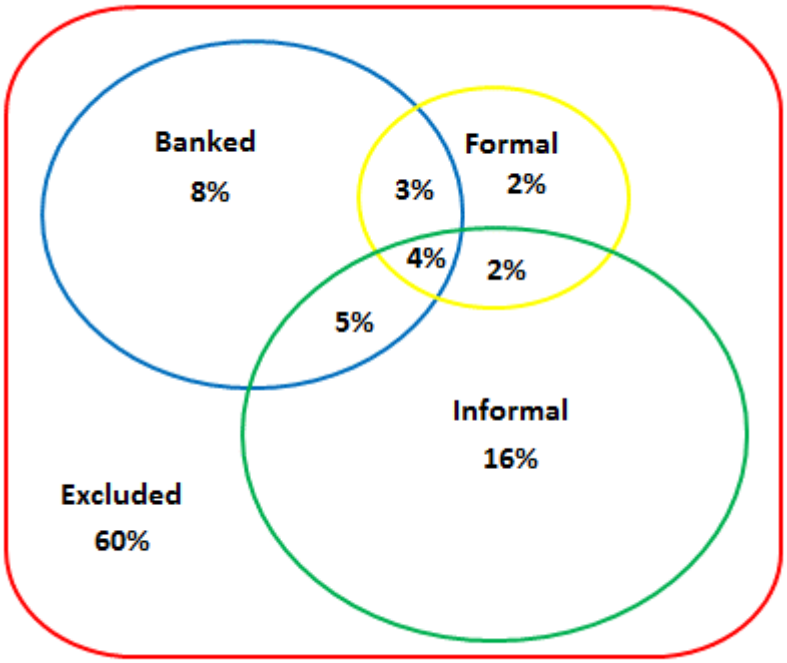


Figure 16: Overlaps between the product categories.

Source: FinScope (2014)

When we express the overlap as a percentage of total users of a particular category, rather than as percentage of all adults, we see that 69% of informal users have only informal products. In the same vein, 42% of banked individuals use only banked products, but of those that have formal non-bank products, only 13% have exclusively such formal non-bank products.

High level of financial exclusion in regional terms. Of the 11 African countries where FinScope

[135] The implication is that, whilst there has been growth in financial access overall, the gains are not evenly distributed. Those in urban areas being favoured over those in rural areas, whilst men are favoured over women.

has been undertaken, Mozambique has the second highest proportion of excluded individuals, with 60% of adults excluded (see **Figure 17** below). It also fares poorly in terms of the proportion of people that use banked products, coming in at 20%, which is roughly on par with Malawi. Mozambique fares worst in terms of formal non-bank products and when these are combined to investigate total usage of formal sector products, Mozambique once again performs worse than the majority of other FinScope countries. Mozambique compares more favourably in the informal-only financial services category. Here, usage is closer to the average across other African countries where a FinScope has been conducted. This is driven almost exclusively by the popularity of community-based savings groups, or *xitiques*, to which approximately 2m Mozambicans belong.

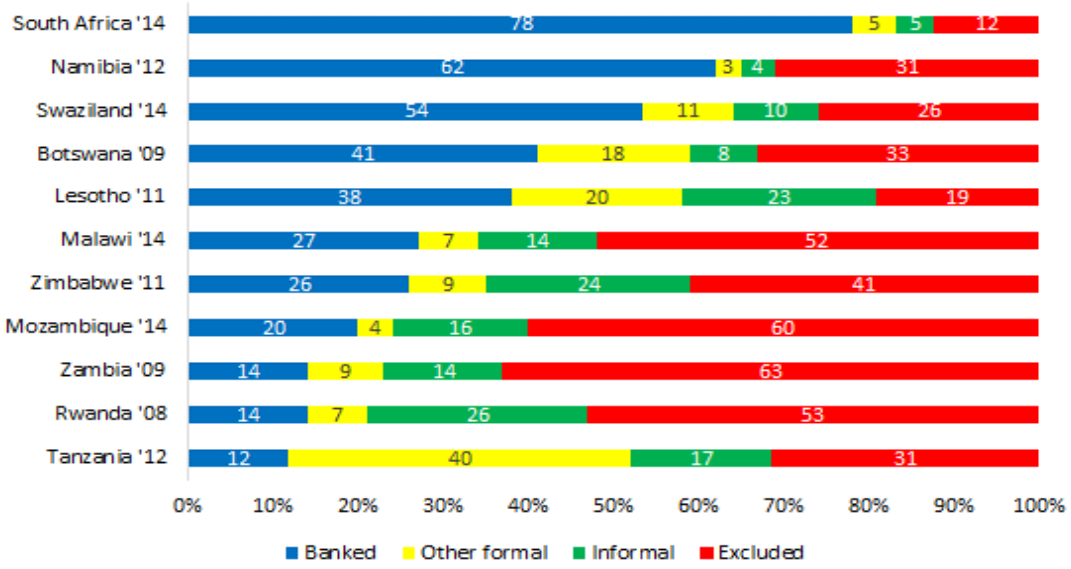


Figure 17: Financial Access Strand comparison across various countries

Source: various FinScope surveys

Remittances and transactions are the biggest banked items. The primary mechanism whereby Mozambicans access banking is via remittances sent through a bank, or by virtue of having a transaction product with a bank. Formal, non-bank financial mechanisms are almost absent across all the target markets. Notable is the very low penetration of formal insurance and of any type of credit:

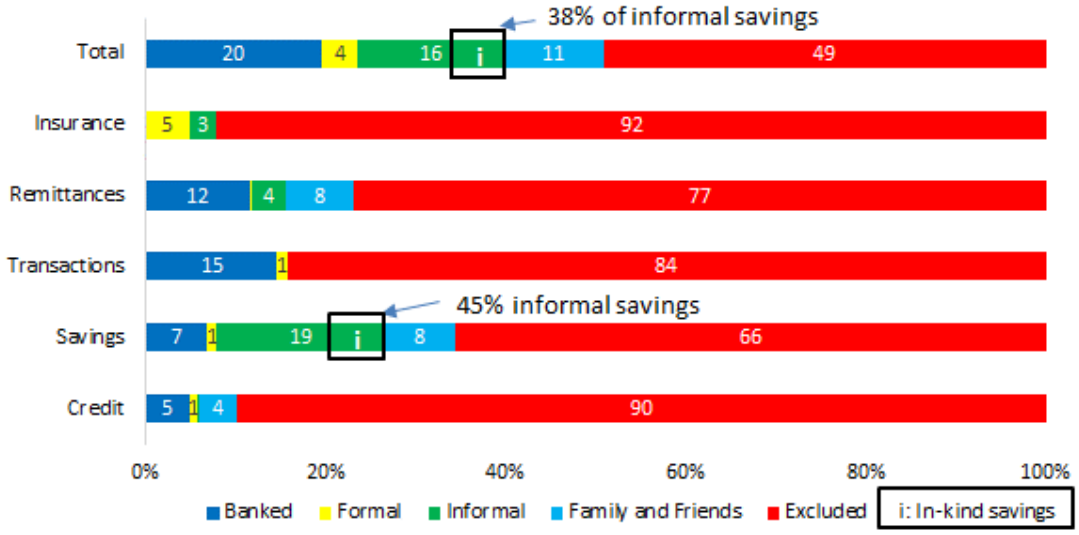


Figure 18: Product Strands for Mozambique[136]

Source: FinScope (2014)

Limited portfolio of usage. The access strand only indicates whether a person is served or not. It is meaningful to also consider the interplay between product markets (credit, savings, payments and insurance) to know how many of those that are financially served use services from more than one product market. This gives an indication of how "deeply served" those inside the access strand are. **Figure 19**[137] below indicates how many different types of products (credit, savings, insurance, remittance and transactions) Mozambicans have. Unlike the access strand, the categories here are mutually exclusive. Overall, when only formal products (both bank and non-bank) are considered, only 10% of adults have more than one type of product: 6% have two product types, 3% have three product types, and only 1% are served across the full portfolio. Fifteen percent of adults have only one type of product and 75% are totally excluded.

In-kind savings common. As will be discussed in greater detail in **Section 6.3: Market for Savings**, there is widespread in-kind savings in Mozambique. In **Figure 14**, above, the percentage of in-kind savings is marked in the total access strand and the savings strand. When looking at the savings strand, almost half of informal savings (45%) is in-kind. As will be discussed throughout this diagnostic, this is an indicator of a relatively significant in-kind economy that permeates throughout Mozambique.

Informal important for meeting financial needs. When informal usage is considered, the picture improves considerably, with only 60%[138] of individuals being excluded outright. The number that use more than one product swells to 16%, whilst those with access to only one product grows to 23%. It is notable that the majority (58% of included individuals) have access to only one product in this case. Of those with only one product, 70% have an informal product, and of these individuals 38% are served by a *xitique*, while a further 38% save in kind

[136] Indicates the in-kind savings components in informal savings here

[137] For the purposes of the current analysis, transaction and remittance products were combined due to their similar nature. There are thus four product markets indicated: credit, savings, transactions and insurance.

[138] The 60% exclusion figure for Formal & Informal is the same as the total access strand exclusion figure. In the subsequent analysis, friends and family is frequently added as a further category, to illustrate potential need for a product. The exclusion figure thus appears lower in the total strands where this is done.

(in livestock, agricultural equipment, their stalls / shops, etc.).

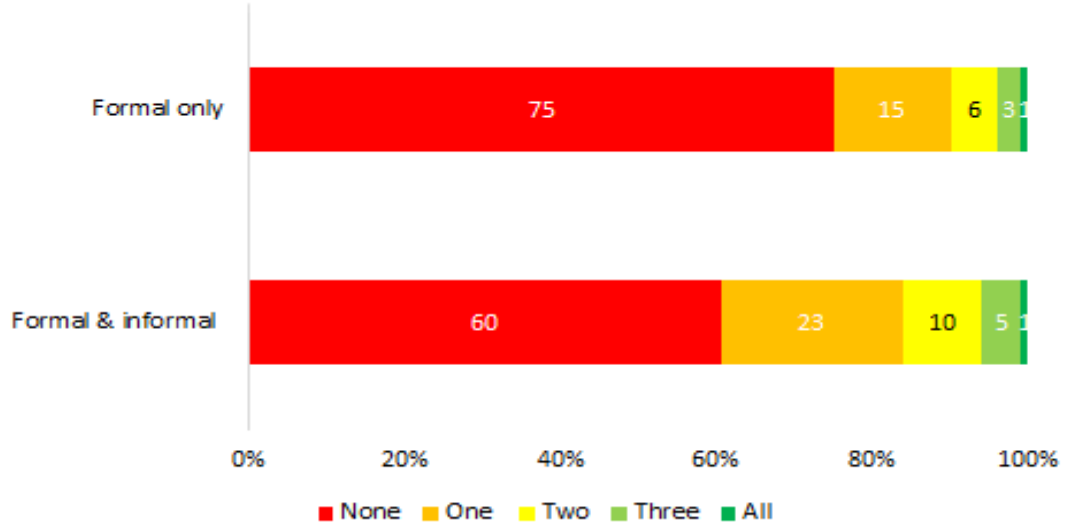


Figure 19: Usage of products across different product markets (expressed as percentage of all adults)

Source: FinScope (2014)

4.3. Segmenting the market

Common characteristics facilitate product design. In order to enable financial inclusion, it is worthwhile to identify groups of individuals that share common characteristics. The profiles of these groups and their current usage can then be analysed and compared in order to conclude on key needs, gaps and opportunities across different target market segments. Such a granular approach allows for more meaningful insights to be gained in terms of potential policy interventions and, from a supplier perspective, the implications for product design, distribution and marketing strategies to better meet the needs of defined target market segments.

Main source of income as segmentation tool. The MAP methodology uses main source[139] of income, as gauged from the FinScope survey, as the basis for segmenting the population into discrete target market segments. Main source of income is a useful proxy, as it correlates with the average level and stability of a person's income. These, in turn, are good indicators of ability to access financial services. Clustering by main income source also produces groups of people that tend to share certain demographic and socio-economic profile elements, for example regarding education, rural-urban spread, access to mobile phones or gender. Thus main income source as a basis for segmentation enables the analysis to generate clusters of individuals that are sufficiently different from other categories, yet share a common set of characteristics.

[139] Note that this does not mean that the income category indicated is that person's *only* source of income. For example, all of the target markets are also, to a greater or lesser extent, involved in agricultural activities. However, any other income sources are at a secondary level to the *main* income source.

Box 7: Introducing the target markets

The FinScope survey contains sixteen categorisations of the primary income source that a respondent receives. These are combined to yield the following target market segments, each of which is defined below in **Figure 20**:

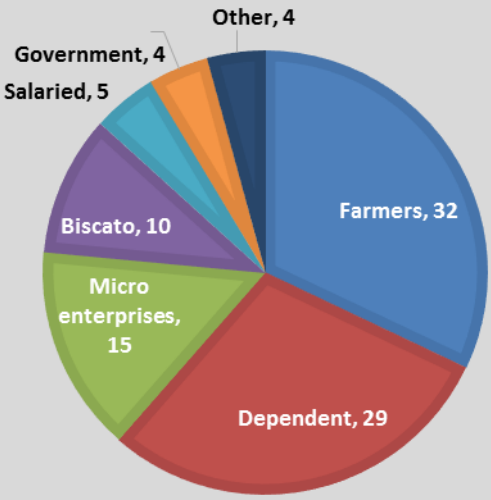


Figure 20: Size of the target markets as percentage of total adult population

Source: FinScope (2014)

- **Farmers** (32% of adults): Those that derive their main income from agricultural activities, the selling of livestock or from fishing. Those that sell produce that is collected from nature, but that is not food, are also included[140].
- **Dependents** (29% of adults): Those that rely on their households to either pay for expenses or that receive money directly from the household. Those that receive remittances are also included in this category
- **Microenterprises** (15% of adults): Those that receive their primary income from their own business.
- ***Biscato*** (10% of adults): Those that indicated that their principle income comes from being a piece job worker, known as a "*biscato*" in Mozambique.
- **Salaried workers** (5% of adults): Those that indicated that their primary income is paid to them in the form of a salary from any entity except for government.
- **Government workers** (4% of adults): Those that indicate that their primary income is paid to them in the form of a salary from government.
- **Other** (4% of adults): Those that indicated that their primary income source is from rental, NGO or aid organisations, money lending or from government but not in the form of a salary (that is: pensioners and/or grant recipients), as well as those that did not answer the main income question or stated that they do not receive any income. This group is not clustered based on a common set of characteristics, but is a residual group. Hence they will not be included in the analysis below[141].

Different profiles. Each target market segment has a unique profile. **Table 7**Table 2 below indicates just some of the differences between the various target markets:

Profile element	Farmers	Dependents	Micro-enterprises	*Biscatos*	Salaried workers	Government workers	Total
Number of adults (millions)	4.6m	4.2m	2.2m	1.5m	0.7m	0.6m	14.4m
% Female	48%	67%	49%	45%	31%	45%	52%
% Rural	88%	59%	63%	62%	30%	40%	67%
Avg. monthly income (MZN)	5,409	3,776	7,246	4,414	7,984	15,027	5,980
% with >1 income	30%	23%	45%	33%	30%	35%	31%
Most prominent age category[142]	21-30	16--20	21-30	21-30	21-30	21-30	21-30
% with secondary education	8%	26%	18%	15%	43%	70%	20%
% with cellphone access	47%	53%	79%	70%	90%	90%	60.4%
% with an ID document	39%	48%	63%	41%	82%	96%	51%

Table 7: Overview of target markets

Source: FinScope (2014)

The two largest target markets are the farmers (32%) and dependents (29%), which together represent 61% of Mozambican adults. The smallest target markets are government and salaried workers. They collectively represent only 10% of the population. Generally, the salaried and government workers, are not only the most affluent and best educated individuals, but also tend to be more urban than average, whilst the poorer target markets tend to be more rural. In general, the more educated segments have higher incomes, as well as higher access to mobile phones, whilst the opposite is true for the less educated and poorer segments of the market. Microenterprises and *biscatos* are the closest in terms of their geographic split to the average for the country as a whole, indicating that they are found throughout urban and rural areas. In terms of their gender, salaried workers are heavily skewed in favour of men, whilst dependents are heavily skewed in favour of women.

A number of inter-segment shifts since 2009. Table 8 below highlights the shifts in the sizes of the target markets over time. The first data column indicates the size of the target market as per FinScope 2009, whilst the second column indicates the size of the target market in 2014. The third data column shows the difference between the size the target market would have been had its numbers increased by the same magnitude as the overall population, whilst the next column shows the difference between what is expected with this forecast and what is actually observed. The last column shows the percentage deviation from what was expected

[140] FinScope did not allow a disaggregation of farmes by those that are commercial versus those that are subsistence, nor those that are farm workers versus those that are farm owners (large or small).

[141] One sub-group deserves mention. There are about 170,000 individuals inside "other" that indicated that they receive a pension (public or private) and/or a government grant. Some of them may therefore be relevant to the salaried or government workers, as they receive a regular pension, whereas others may be relevant to the dependent segment, as they are dependent on government grants as their main source of income. However, it is not possible, statistically, to separate these three categories out of the pension and grant sub-group and the sub-group as a whole does not match the profile of any of the other three target markets. Furthermore, they are too small a group to merit their own target market discussion. Nevertheless, when considering potential financial inclusion touch point, the government pension and grant system can be taken into account, as it does already reach an existing, if small, base of people through regular payment transactions.

[142] Note: this depicts the biggest age category for the segment, but other age categories may be only slightly smaller. In terms of statistical significance, the analysis did not show age as a significant differentiator between the segments.

in 2014 versus what was recorded in 2014.

Target Market	FinScope 2009	FinScope 2014	Anticipated 2014	Difference from expectation	% Difference
Farmers	2,579,632	4,624,859	3,242,854	1,382,005	43%
Dependent	4,503,946	4,237,513	5,661,908	-1,424,395	-25%
Microenterprises	1,470,504	2,174,785	1,848,570	326,215	18%
Biscato	1,144,032	1,468,593	1,438,162	30,431	2%
Salaried	570,071	686,504	716,636	-30,132	-4%
Government	320,865	635,358	403,359	231,999	58%

Table 8: Shifts in target market numbers between 2009 and 2014

Source: FinScope (2014)

The two largest shifts in absolute value are in the farmers and dependent target markets, with those that are dependent on agricultural work as their main source of income being 43% higher than anticipated, whilst those that depend on their household for the majority of their income being 25% lower than anticipated. Interestingly, the magnitudes of the shifts in these two sectors almost balance out. Collectively, this could suggest that dependents are moving out of the household and engaging in agricultural work to supplement the household income[143].

Two other target markets that saw substantial increases are government workers (58% growth) and microenterprises (18% growth). The qualitative research conducted in 2014 indicates that many microenterprises are informal means for individuals to supplement household income. The data would suggest that more people now use such microenterprises as main source of income than in 2009.

Inclusion varies greatly across target markets. Investigating the access strand by target market reveals that the use of formal products varies substantially between the groups. At the bottom of the range, farmers are the least included, whilst those in the government sector are the most included in the formal financial system. Those that make use of informal products, such as *xitiques*, a form of community-based savings group, remain relatively constant across the segments but is lower amongst the more formally included groups of government and salaried workers. The same applies to those that rely on their family or friends for at least part of their financing needs.

[143] We considered whether the large rise in agriculture as main source of income could be because something like floods or drought undermined agricultural production in 2009, but could not find any specific evidence in this regard.

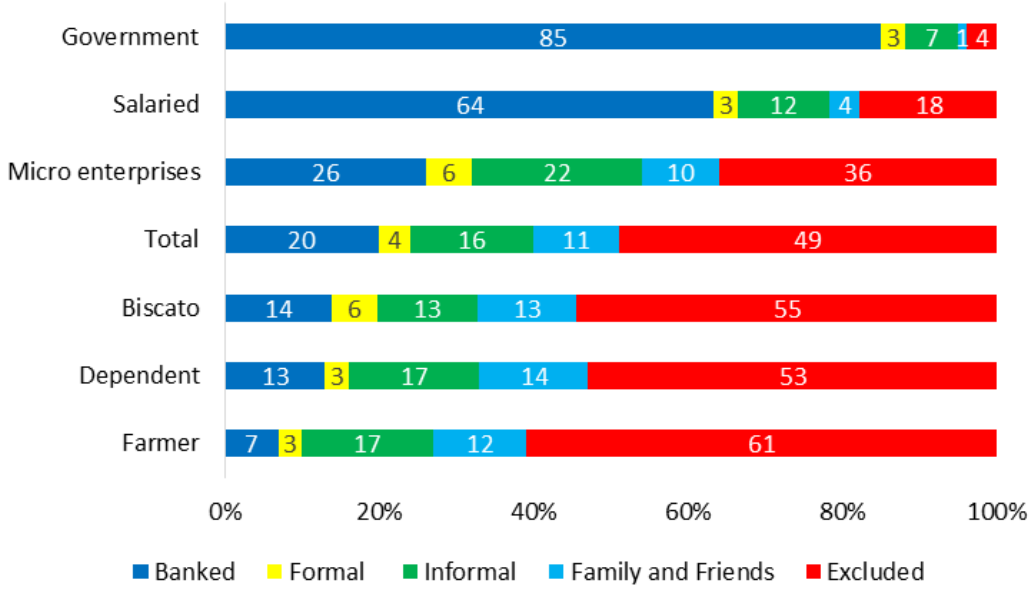


Figure 21: Target market financial access strands

Access increases with income. Those categories that have formalized incomes, such as the salaried and government categories, have higher use of financial services, particularly banked products. Conversely, the lowest income category, namely those that derive their principle income from agricultural activities, has the lowest usage of banked products.

Usage portfolio differs across target markets. When only considering formal inclusion across the various target markets, we see that government workers are the most likely to use more than one type of product. Of government workers, 71% of individuals report using more than one product type. Farmers are the most "thinly" served, with only 2% reporting the same. Overall, only 10% of Mozambican adults have more than one product type:

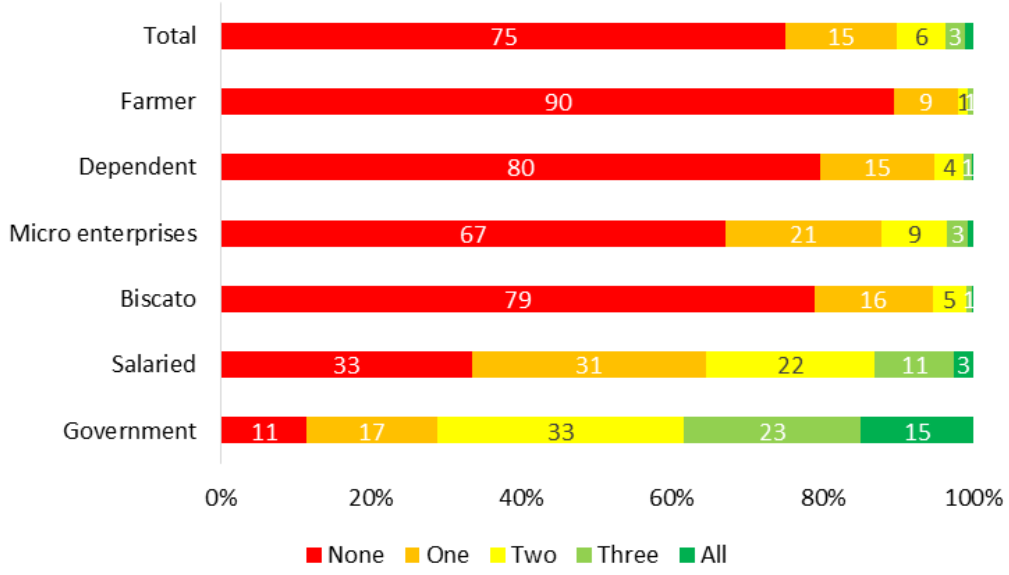


Figure 22: Number of product categories used by those who are formally included (expressed as

percentage of adults)

Source: FinScope (2014)

Informal mechanisms important in adding to the portfolio of usage. **Figure 23** repeats the analysis above, but now includes informal products to look at total financial inclusion, not just formal inclusion as above. When the informal market is added, we see that the depth of access increases considerably. The number of government workers that now report taking up more than one type of category stands at 88%, whilst 6% of farmers say the same. Overall, 16% of Mozambicans now make use of more than one category. This highlights the supplementary role that informal services plays in helping Mozambicans meet a broader portfolio of finance needs.

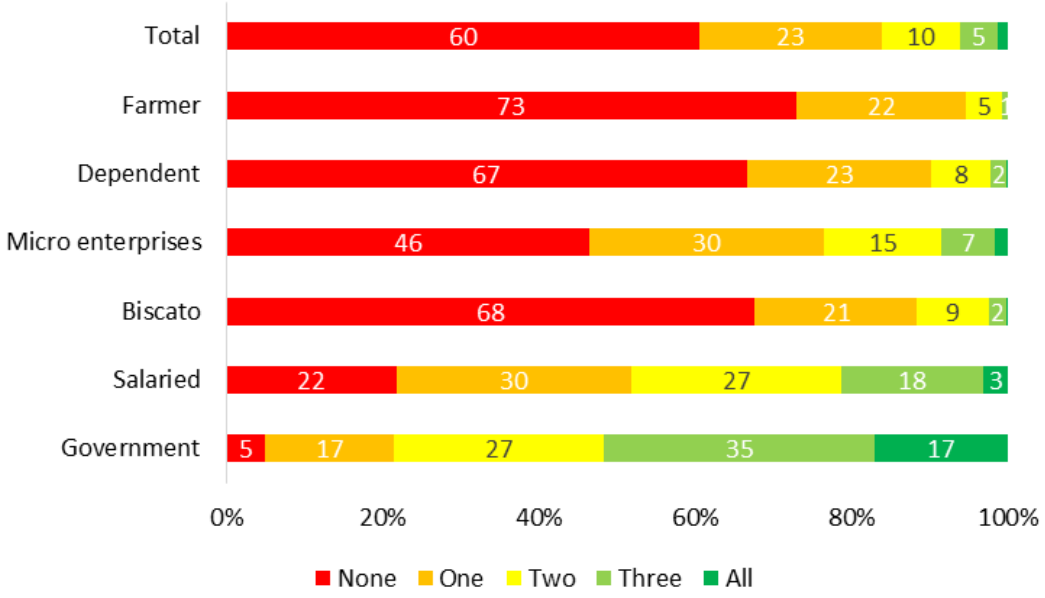


Figure 23: Number of product categories used by those who are financially included[144] (expressed as percentage of adults)

Source: FinScope (2014)

The sub-sections to follow take a closer look at the demographic and usage profile of each of the individual target market segments in order to conclude on their likely financial services needs and the prospects for financial institutions to meet those needs.

[144] For the purposes of this graph, those that make use of family or friends for their credit, savings, transactions, remittances or insurance are deemed not to have access to a product. Only those that have access to informal, formal or banked products are considered as meeting a need using that particular product.

4.3.1. Farmers[145]

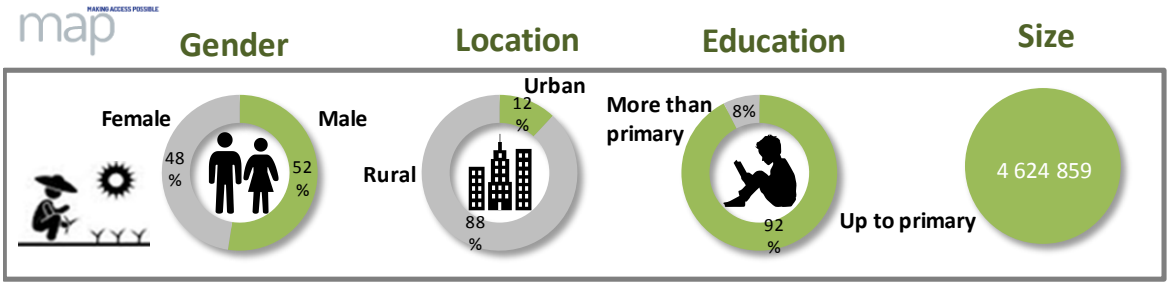


Figure 24: Agricultural segment key descriptors

Source: FinScope (2014)

The farmer represents the single largest target market, accounting for 32% of adults in Mozambique[146].

Largely rural, uneducated. Almost nine out of every ten individuals in this target market are located in rural areas, especially in the northern and central provinces of Cabo Delgado, Sofala and Niassa. In contrast, the southern, urban provinces of Maputo City and Maputo Province have proportionally fewer farmers. The farmers are also the least educated of all the target markets, with only 8% having more than a primary education. The average age of individuals in this target market is 39, whilst 67% of individuals indicated that they have only one income, 31% indicated that they have two and 2% indicated that they had more than two. Twenty-two percent of the segment indicated that they make their decisions alone, whilst 64% indicated that they do so together with their partner or spouse (the highest of all target markets). This target market is also the only one where the majority of respondents do not have access to a cell phone, with only 47% indicating that they either have a cell phone of their own or access to a cell phone of a family member or a friend. The average monthly income of a person in this bracket is MZN 5 409, ranking just below the national average of MZN 5 980. This compares favourably with the incomes of *biscato* and dependents, but lags well behind microenterprises, salaried workers and government employees.

Most generate some surplus. Of farmers, 81% indicate that they engage in agricultural activities for their own consumption as well as for selling to others. Therefore, 81% of individuals in this target market are engaged, at least partly, in surplus-generating agriculture, whilst 19% are engaged in agriculture purely for their own subsistence.

The most excluded target market. **Figure 25** below indicates the farmers' overall as well as product-specific usage of financial services. With over 90% of the segment excluded from

[145] The analysis of all the target markets draw on the FinScope (2014) survey, unless otherwise indicated, hence references are not repeated.

[146] Note that several methods of further segmenting farmers were considered. However, none ultimately proved viable for meaningful segmentation. One approach considered included splitting out farmers that are primarily survivalists and to compare these with those that sell some of their produce. Ultimately, this approach proved unviable due to the fact that the two segments were almost identical in their statistical profiles. The root cause of the problem is a lack of granularity in the FinScope (2014) survey around selling and consumption behaviour. Another approach considered segmenting the market to understand the type of agricultural activity they are involved in: Agriculture (plants), livestock breeding and/or fishing. Once again, a lack of granularity emerges as a critical barrier to following this approach. Thus the primary avenue to identify viable pockets of the farmer target market from a financial services distribution point of view will likely be via the supply side (such as outgrower schemes) as opposed to demand side segmentation.

insurance, transactions and credit markets, and 61% not using any type of financial service, they represent the most financially excluded category in Mozambique. The only item that features prominently is informal savings, which is a result of many farmers being members of *xitiques*. Individuals from this target market comprised 22% of those who indicated that they are a member of a *xitique*.

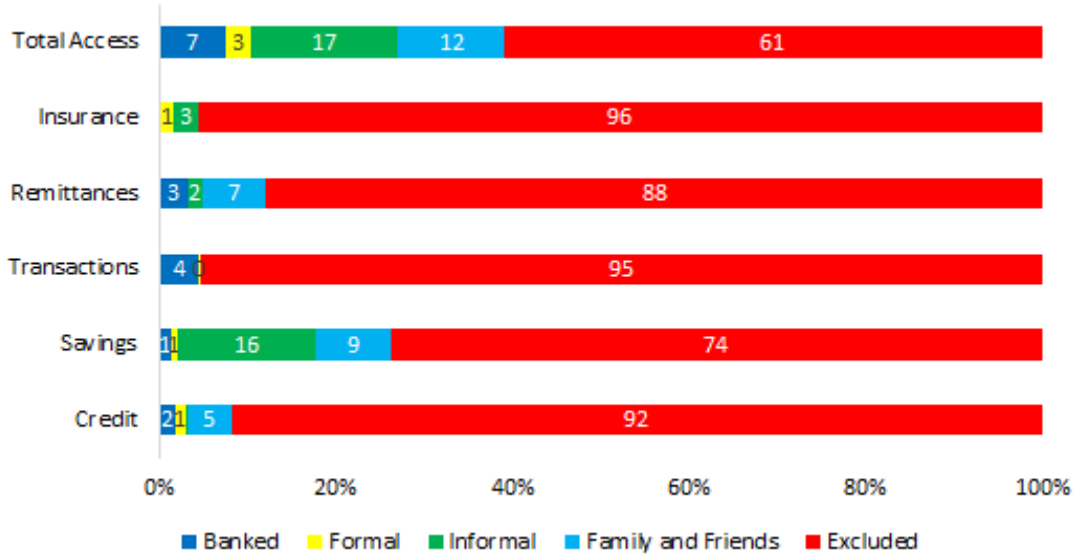


Figure 25: Farmers target market product strands

Source: FinScope (2014)

Very limited access strand overlaps. As **Figure 26** below indicates, farmers are primarily served through informal mechanisms. There are very few individuals in this target market that make use of formal or banked products that simultaneously make use of informal products.

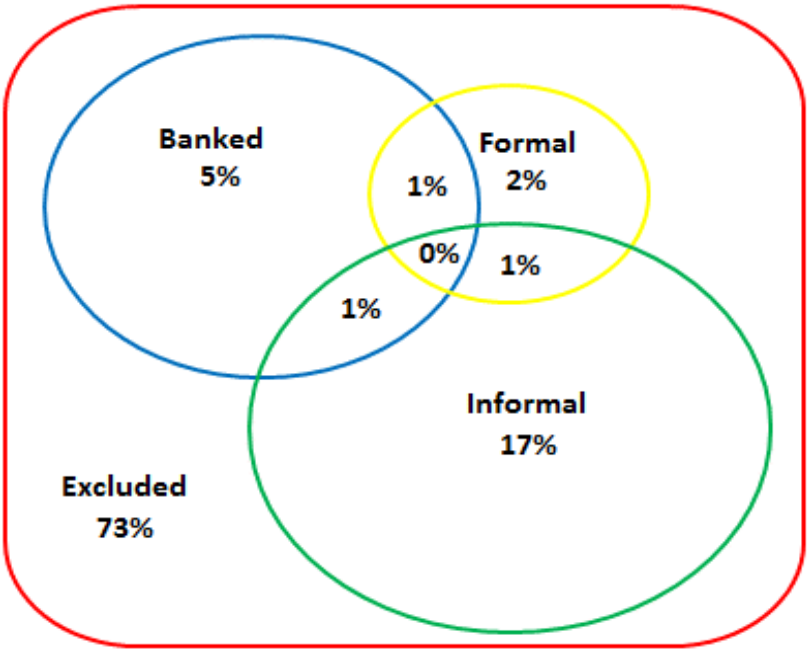


Figure 26: Overlaps between product categories for farmers

Source: FinScope (2014)

Facing severe proximity barriers. Their rural profile makes this target market a particularly difficult one to access. Twenty-five percent of farmers indicate that they do not have a bank account because it is too far away from them. A further 5% indicate that the transport costs to the bank are too expensive. This is supported by the fact that when asked how long it took the respondent to reach an ATM or a bank, 55% and 58% respectively indicated that it would take them over an hour.

Borrowing for farming inputs. When respondents in this target market were asked why they had borrowed in the past or why they would like to borrow, the second most frequently cited reply (after non-medical emergencies) was to pay for farming expenses, such as seeds, fertilizers or fishing expenses, such as nets or boats. This represented approximately a third of those who had borrowed in this target market. In terms of those that save, 10% indicated that they are doing so in order to buy these items. Access to appropriate inputs was also one of the barriers identified in the qualitative research. For an illustration, see **Box 8.**

Box 8: The importance of access to inputs and equipment: the case of two farmers in Niassa

Whilst farmers would like to expand their inputs, not all of them have access to the resources that they need in order to achieve this. This is highlighted by two farmers, Tiago and Adamo, both from Niassa province.

Tiago has a monthly income of MZN 10 000. He has access to a tractor from the government (valued at MZN 1 200 000) for which he pays nothing except for the upkeep and the fuel. He also has access to bulls that he can use to plough his fields, though these are on rotation between him and other farmers in the area. Once again, he is only responsible for their upkeep whilst he has access to them. Finally, Tiago received a government loan totalling MZN 21 000. He used this to install an irrigation system, which he indicates helps him "have minimal fear of a bad harvest".

Adamo, on the other hand, has a monthly income of MZN 6 000. He received a government loan of MZN 10 000 in order to support him to expand his activities, however he indicated that this was not enough. He desperately wants a tractor to increase his yields and believes that, with this, he could increase his production from 12 tonnes per annum to 50.

Unique risk perceptions. Understandably, those making a living from farming are much more concerned than the average Mozambican by the prospects of a poor harvest. However, they are significantly less worried about the risk of illness of a main wage earner.

Key needs: Farmer target market

Farmers are the most removed from formal financial services, both in physical and technological terms. They are furthermore relatively low income and not well educated. This presents a clear barrier for access, both by traditional means such as ATMs or more innovative means such as mobile money. Their profile also implies that they have a strong need to smooth income, enhance productivity and deal with weather-related risks. Financial products that help them to save and to purchase inputs such as seed and fertiliser, would add value.

4.3.2. Dependents

The dependent target market consists of those that indicated that the main way in which they receive income to meet their daily needs is from other household members. This could include either direct income, such as remittances or cash, or indirect income whereby the household member pays for or provides for the needs of the dependent directly[147]. Note that this does not mean that they do not also generate their own income – merely that their main income source is derived from others in the household.

[147] Note, however, that, this does not include those that receive government grants. As explained earlier in the chapter, this is due to the fact that it is not possible to split these individuals out from those receiving any type of pension. This aggregated group is also very small, representing only 1% of the population or 170 000 individuals, of which the government dependents are an even smaller sub-group.

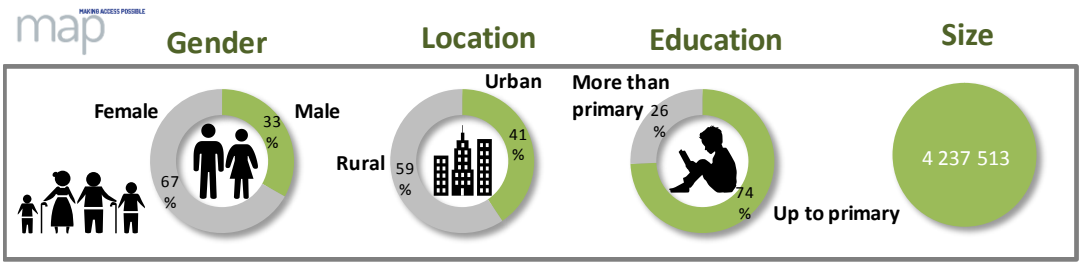


Figure 27: Dependents key descriptors

Source: FinScope (2014)

Largely low-income females marginalised from financial decisions. Dependents are the second largest target market, representing 29% of adults in Mozambique. They are found throughout Mozambique. Like farmers, they are heavily involved in agriculture, though primarily for their own consumption (61%), with only 36% producing a surplus which is then sold. Two out of every three people in this target market are female, more than any other target market. Fifty-nine percent are located in rural areas, compared to 67% of Mozambicans in total. With 26% having completed primary education, this target market is also somewhat more educated than the average Mozambican, where only 20% completed primary education. Unsurprisingly, dependents have the lowest average income of all the target markets, at 3 776 meticais per month. The income earning profile of this segment highlights their role as secondary income earners for the household. Not surprisingly, dependents are the least involved in household decision making of all the target markets, with 18% indicating that they are not involved in decision making whatsoever. This compares to 4% in the case of farmers, which come in second place. Of those 82% that are in some way involved in decision making, 61% indicate that they make decisions jointly with their spouses or other household members, whilst 21% indicate that they make decisions autonomously.

Very poorly served. The dependent target market is second only to the farmer target market in terms of financial exclusion and more than half of them do not use any form of financial service, formal or informal. This exclusion is even more pronounced from an individual product market perspective: 95% of dependents do not have any credit and 97% do not have insurance. Savings and remittances from an informal provider or family and friends are the most widely used instruments, but even then usage remains low. The aggregate strand masks some finer nuances, however, due to their dependency status, as the main income earner may be the one that accesses financial services on behalf of the household. Of those that indicated that they make decisions on their own, only 43% are excluded, compared to 59% of those that have no say in the decision making process.

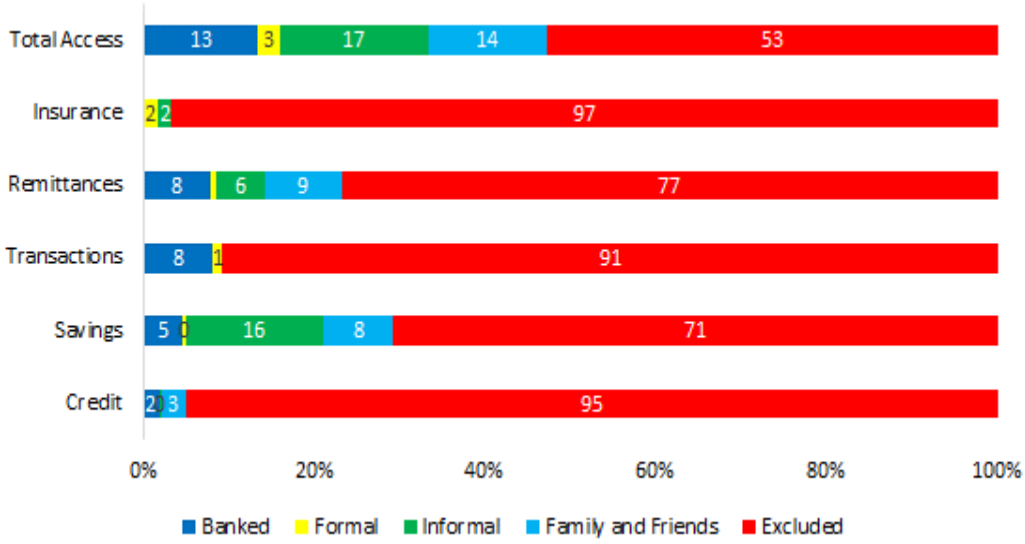


Figure 28: Dependents product strands

Source: FinScope (20140

Primarily served informally. Whilst the overlap between the various access strand categories is small, dependents have more of an overlap than farmers do – that is, more of them use informal as well as formal financial services. Included dependents make relatively more use of formal products than farmers:

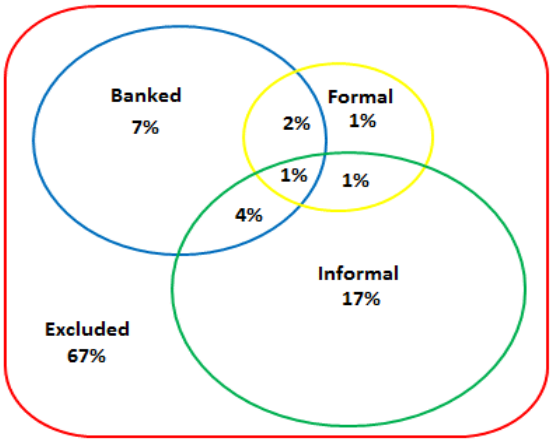


Figure 29: Overlaps between product categories for dependents

Source: FinScope (2014)

Box 9: Who are the dependents? A more granular view

Concerned about the health of the income earner. Unsurprisingly, the largest concern for this group is either the death of the main wage earner, or the illness of the main wage earner. Surprisingly, they are slightly less concerned about the illness of a member in the household than the average Mozambican. They are also significantly less concerned with damage to the household, either by theft or by flood. This may be because they are less directly responsible for the financial well-being of the household.

Not all dependents are alike, therefore, it is important both from a policy perspective as well as a financial services provider perspective to garner a deeper understanding of dependents. This is done by creating sub-segments based on certain criteria.

Involvement in household financial decision making. One possible way to segment the dependent target market vis-a-vis financial services usage is to understand whether or not the individual participates in household financial decision making. The table below outlines some key descriptors across the various sub-segments. (Note that income indicators are included only for illustrative purposes. As they represent a mid-point estimate and not all in the group answered the income question, they cannot be seen as definitive. [148])

I make decisions with my spouse: *Ave Age: 36* *36% Urban* *78% Female* *39% of Dependents* *Income: MZN 4 363 per month* Lowest level of financial literacy compared to others	I make decisions on my own: *Ave Age: 37* *43% Urban* *57% Female* *21% of Dependents* *Income: MZN 3 356 per month* Generally second lowest levels of financial literacy, except for a few categories (bank loans, for example).
I am uninvolved in financial decision-making *Ave Age: 26* *36% Urban* *62% Female* *18% of Respondents* *Income: MZN 2 573 per month* Generally second highest financial literacy (significantly better than decision makers and those making decisions with a spouse).	I make decisions with another household member *Ave Age: 28* *50% Urban* *60% Female* *21% of Respondents* *Income: MZN 2 956* Generally highest level of financial literacy.
Dependents target market overall: *Ave Age: 32* *Urban* *41%* *Female* *67%* Dependents are generally more financially literate than farmers or *biscatos*, but less literate than the remaining categories. They also tend to slightly more financially illiterate than the average Mozambican.	

The role of age of a dependent is a significant predictor of the decision making status of a dependent,

[148] Thus the income figures indicated should not be taken to be the true mean of the group. In the calculation of the figures, the midpoint between the bracket minimum and maximum were used and only those that indicated an income were included. The

with the independent decision makers being the oldest category, whilst those that are uninvolved in decision making being the youngest. Those that make decisions in conjunction with their spouses are only slightly younger than the independent decision makers, whilst those that make decisions with a household member other than their spouse are considerably younger.

Counter to what one would expect, those dependents that make decisions on their own tend to be some of the most financially illiterate, whilst those dependents that are excluded from financial decision making tend to be some of the most financially literate (with some exceptions)[149]. Financial literacy therefore does not seem to be a predictor of tendency to exercise financial decision making.

Furthermore, those that make financial decisions in conjunction with household members are also the most urban and the most reliant on remittances of all the categories. This, combined with their young age, suggests that this category contains a large number of students that are enrolled in institutions that away from home.

It is also significant to consider the source of income of the various sub-segments:

Source of Income[150]	I decide	With spouse	With other household member	I am uninvolved in decisions	Total
In kind mainly	61%	64%	55%	78%	64%
Cash mainly	14%	17%	18%	8%	15%
Remittances in addition to in kind / cash	25%	19%	27%	14%	21%

Table 9: Source of income for each sub-segment

Source: FinScope (2014)

As **Table 9** above indicates, those that are uninvolved in financial decisions are the most reliant on their families to take care of their needs (in-kind income), whilst those that make decisions in conjunction with their families (but not spouses) are least reliant on in-kind contributions. When investigating those that receive remittances, the reverse is true.

Involvement in decision-making matters for financial inclusion. Participation in the financial decision making of household is a significant predictor of financial services usage, with those involved in household decision making more than twice as likely to be served by banked products. Conversely, those that are uninvolved in the financial decisions of their households are much more likely to be excluded. This is despite the fact that they are some of the most financially literate dependents. Variations across the formal and family and friends categories are more subtle.

overall trend, however, is that the high the proportion of people that did not know what their income was, the lower the income estimate for that group.

[149] Twenty-six percent of those that indicated they make decisions alone know what a bank branch is, compared to 31% of those that are excluded from decision making, while17% of decision-makers know what a debit card is compared to 21% of those that are excluded from decision making. Twenty-four percent of the former (?) know what the term ATM means, compared to 30% of the latter. It should be noted that there are a few exceptions, including savings accounts (19% compared to 14%) and bank loans (26% compared to 21%) as well as interest rates (27% compared to 20%).

[150] The source of income presents us with another possibility for sub-segmentation. It is however not ideal as a segmentor in that it is does not provide us with neatly demarcated groups. Those that receive remittances also receive either in kind benefits through their households or cash through their households. Therefore, those that depend primarily on remittances will be pooled with those that receive the occasional item from their households, increasing obscurity in this category. Furthermore, those that receive remittances have not indicated that it is their primary source of income, as is the case with the other two categories. The use of the access strand methodology is also not possible due to the fact that, in order to be involved in remittances, one cannot be excluded, by definition. Finally, there is a lack of granularity in that 64% of the population falls into the in kind category, with the remainder being split between two other categories.

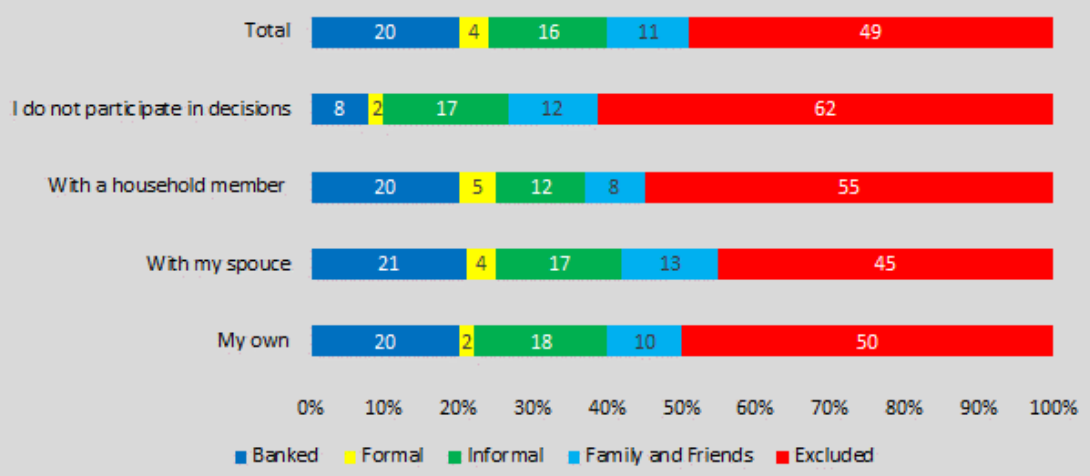


Figure 30: Access strand by financial decision making status

Source: FinScope (2014)

The fact that formal financial access correlates strongly with a role in decision-making in the household may be in part due to the superior incomes that decision-makers have, but also in part due to the fact that those that are uninvolved in decisions tend to be younger dependents (such as children and students).

Key needs: dependent target market

The needs of this target market will vary largely depending on the status that the individual enjoys within a household. For those that are younger and uninvolved in decision making, the benefit of financial inclusion may be limited, particularly, since many dependents receive no kind of income at all other than the household covering their expenses. For those that do receive an income, particularly those that do not live in the same household as the member that pays their income, secure and stable ways to remit may be a priority. On the whole, however, the very low income and current usage profile exhibited, including of informal financial services, may suggest limited potential for reaching this target market at scale. The most feasible way of reaching them may be via the main breadwinner (for example where a government or salaried worker uses a financial service to the benefit of the whole family).

4.3.3. Microenterprises

As the discussion has shown, formal employment is very limited in Mozambique. Hence microenterprises, along with other segments operating in the informal sector, represent an important target market. The fact that, in addition to the FinScope 2009 and 2014 datasets, there is also a dedicated 2012 FinScope Micro-Small and Medium Enterprises (MSME) survey, means that a more granular analysis is possible of this segment's profile and needs than for the other target markets. The analysis here seeks to highlight commonalities across the three datasets in order to form a more in-depth view of this target market.

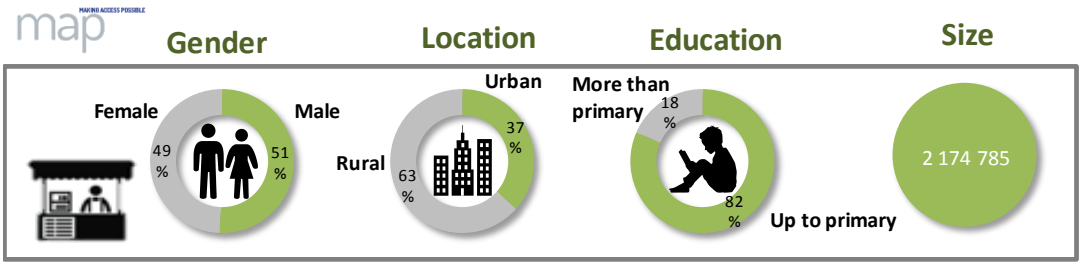


Figure 31: Microenterprises key indicators

FinScope (2014)

General profile

Equal male-female spread, many involved in agriculture. According to FinScope (2014) almost 2.2m Mozambicans earn their main source of income from an own-business. This represent 15% of adults. This figure is substantially lower than the number of microentrepreneurs suggested by the MSME 2012 survey, at closer to 4.5 m[151], a discrepancy that may partly be explained by the fact that the segmentation exercise here only considers those adults with an own business as *main source of income,* whereas many people may also trade or run a small business an ancillary income source. FinScope 2014 and MSME 2012 agree that the average microentrepreneur is approximately 37 years of age. They are more or less equally spread between male and female (the same gender spread as the national average). Relative to other target markets, FinScope 2014 indicates that microenterprises are concentrated in the Maputo province and city area, along with Zambezia, whilst being underrepresented in Nampula. Like the other target markets, microenterprises are also heavily involved in agricultural activities (77%). Approximately 45% of this target market is involved in the sale of agricultural products, not just subsistence (FinScope 2014). This is echoed by the MSME survey, where 20% of respondents indicated that they were involved in agriculture, forestry or fishing, with a further 45% indicating that they were involved in retail (another possible categorisation of agricultural businesses).

Relatively better off than most groups. In terms of income, both the FinScope 2014 and MSME surveys indicate that approximately 70% of this target market has a monthly income of below MZN 5 000. While this suggests that many entrepreneurs live from day to day with very little money to spare, the percentage of individuals in the lowest category is still lower than for dependents, *biscato* and those making a primary living from farming, with only salaried and government workers being better off.

Businesses tend to be single person, home based, young and informal. The majority of small businesses (93%) are one person businesses that are operated from home (46%). Of those that do not operate from home, 16% operate from the street and 28% operate from a stall. Of the businesses surveyed in the MSME survey, 89% say that they are not registered whilst

[151] The exact number of MSMEs in Mozambique depends on the definition of "Who is an MSME" as well as on the exact weighting procedure used in the survey. In the MSME survey of 2012, the total of 4.5m includes those that sell agricultural products (1m), where in FinScope 2014, these would be classed as farmers. Furthermore, FinScope 2014 captures individuals that are 16 years and above, where the MSME survey captures only those 18 and above. The discrepancy between FinScope 2014 and the MSME survey, ignoring the age difference, is approximately 1.3m people. In the analysis of the MSME subsection lower down in this section, those that indicated that they sell agricultural products were excluded from the MSME analysis in order to obtain a more accurate and comparable scenario between the two surveys and to make the analysis here more meaningful.

86% say they are not licensed. Businesses are also very young, with 66% of respondents stating that they have been in operation for 5 years or less.

Retail is key. In the MSME survey, 94% of respondents classified themselves as retailers, which involves any type of trading, with only 6% being involved in services beyond trading.

Box 10: Introducing four microenterprise sub-segments

Microenterprises are an important segment from a policy perspective in Mozambique. The discussion above painted a general picture of the microenterprise landscape in Mozambique. However, this masks significant differences between different types of microentrepreneurs. Who will be most viable candidates for financial services? What are the different constraints and opportunities across the market?

The MSME survey questions business owners in Mozambique on a wide variety of issues. This includes their educational attainment, which shows the skills they have at their disposal, as well as their reason for being in business, which give an idea of their aspirations. When individuals are profiled according to these two items, four distinct sub-segment profiles emerge. These are introduced in the graphic below:

	Primary education or less	**Secondary education or more**
Aspirational Entrepreneur	Struggling go-getters: *Ave income: MZN 5 189* *26% of respondents(984 825)* *34% Urban*  This group of entrepreneurs is motivated to grow, but do not have the skills required in order to pursue this growth. Skills interventions may be useful.	Driven achievers: *Ave income: MZN 15 760* *9% of respondents(226 000)* *60% Urban*  This group of entrepreneurs has both the drive and the potential to succeed. They are prime candidates for interventions.
Entrepreneur out of necessity	Survivalists: *Ave income: MZN 3 482* *53% of respondents(1.9 mil)* *34% Urban*  Entrepreneurs that do not have the required skills or the drive to grow. This is not likely to be a key area for growth.	Reluctant entrepreneurs: *Ave income: MZN 5 195* *12% of respondents (343 516)* *55% Urban*  This group of entrepreneurs has the potential to grow, yet they have not exhibited the desire to be entrepreneurs. They still need to recognize their potential.

Income ranking confirms classification. It is interesting to note that the income profiles[152] of the various sub-sections follow the same ranking as their relative empowerment in terms of aspiration and education: the Survivalists have the lowest average income, followed by the Struggling go-getters,

[152] Note that the income profiles are calculated in the same way as the FinScope 2014 income profiles. They are therefore only indicative and should not be taken as the exact incomes of these segments, but rather used a as a means to compare the economic wellbeing and capacity of the segments.

implying that those with relatively low skills tend to fare the worst, economically. Reluctant entrepreneurs have slightly higher incomes, but those with both the aspiration and the skills, the driven achievers, have by far the highest income profile. This difference in economic profile is confirmed by a number of further indicators:

- **Driven achievers** are the most likely to live in an urban area (60%). They are the smallest sub-section, representing 9% of microenterprises. The majority (59%) have access to a mobile phone in their household. Only 41% operate from home. Despite their higher incomes, 18% of Driven achievers still indicated that they operate their shops on the side of the street. Note that 3% of driven achievers indicated that they operate from office blocks. This may point to the presence of outliers in the driven achievers category, which may skew the income and access variables upwards.
- **Reluctant entrepreneurs** also have relatively high access to mobile phones, at 58%, and are the second most urban group at 55%. 49% individuals in this category reported operating from home. They are the second-smallest group of entrepreneurs, at 12% of microenterprises.
- In contrast, only 34% of **Struggling go-getters** are urban and only 34% have access to a mobile phone. 54% are operating from home. They are a substantive group, totalling 26% of microenterprises.
- **Survivalists** are by far the biggest group, at 53% of all microenterprises. As lowest-income sub-segment, they are also the least connected, with only 32% having access to a mobile phone. Fifty percent operate from home, 24% operate from a stall and 66% live in rural areas.

Financial service usage profile

Relatively well-served. **Figure 32** illustrates that microenterprises are more included than the average Mozambican, but significantly worse than the salaried and government workers category:

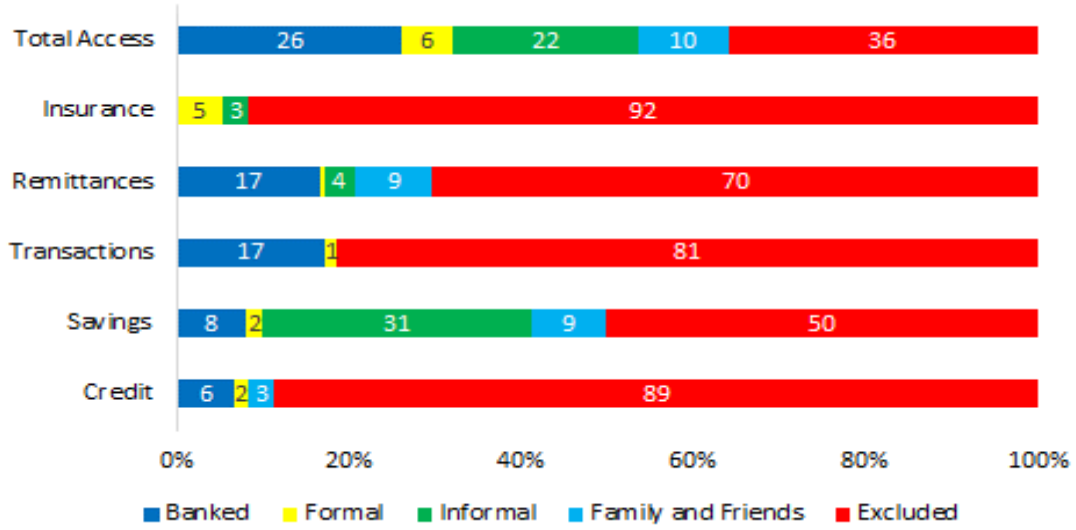


Figure 32: Micro-enterprise product strands

Source: FinScope (2014)

Surprisingly few borrow. Only 5% of business owners in the MSME survey indicated that they borrow. This is broadly in line with FinScope 2014, where approximately 10% indicated that they borrow[153]. However, borrowing does tend to be for productive rather than consumption purposes: 60% of those that do borrow indicate that it is to grow their business, whilst a further 10% indicate that it is to buy new machinery or equipment.

Limited use of banking for business. Of respondents in the MSME 2012 survey, 99% reported that they receive cash in exchange for the goods and services that they provide, whilst only 1.5% reported being paid by bank transfer. This is half of the number of people that report being paid in kind, at 3%. Of MSMEs, 7% reported having a bank account and the only two respondents in the survey that indicated that they are paid via POS systems form a subset of these individuals. Of those who do not have a bank account, approximately 6% indicated that they do not have one because they do not need it. More important reasons quoted were concerns that their income is too low (28%), too irregular (13%) as well as distance to bank infrastructure (17%) and affordability (12%).

More fearful of all risks except for poor harvest. Whilst generally more fearful of all risk events than the other target markets, individuals in this category are significantly more afraid of theft or fire destroying their homes or properties, as well as of illness or death of the main income earner. Evidence for this is found both in the FinScope 2014 survey as well as the MSME survey. Conversely, the only item which they are less afraid of is poor harvest, possibly due to the fact that microenterprises use harvests to supplement their income but to not rely on them exclusively.

Most business savings are informal. Of all the target markets, microenterprises use informal savings products the most. They use these products particularly for household needs, much like other target markets, but also to buy stock for their businesses. Almost all of the informal savings are accounted for by *xitique* membership in order to buy stock with the pay-out. This finding is echoed in the MSME 2012 survey, where 76% of small business owners that used *xitiques* indicated that they use it in order to obtain a lump-sum required for the business. When participants in the MSME survey were queried about savings specifically for their business purposes, 55% indicated that they save at home, whilst 27% indicated that they make use of a *xitique* to save for their business, and the remaining 18% indicated that they save in a commercial bank for their business.

Significant formal-informal overlaps. MSMEs have a much larger overlap between the various access strand categories than either dependents or farmers. The overlap between banked and informal products is particularly large, principally due to the popularity of *xitiques* with this target market. Thus many who have a bank account still continue their *xitique* membership.

[153] The difference in the figures is due to the differences between the surveys as well as small sample sizes. They both do however illustrate that few microentrepreneurs are borrowing.

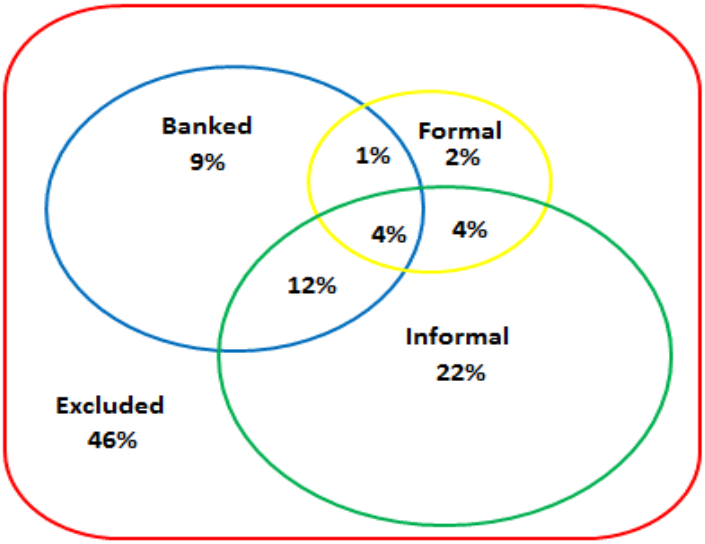


Figure 33: Overlaps between product categories for MSMEs

Source: FinScope 2014

Box 11: How do usage profiles differ across the sub-segments?

The MSME survey indicates that more educated business owners generally have higher usage of financial services, whilst those that have higher incomes also have better access. It is thus no surprise that financial access varies significantly between the categories of MSMEs. Of the survivalists, 70% of respondents did not have access to any financial services, whilst only 40% of the driven achievers said the same. When those that have access to banked finance are investigated, 43% of driven achievers had access to banked finance, whilst only 9% of survivalists could say the same. Struggling go-getters and survivalists have almost exactly the same financial access profile, whilst Reluctant entrepreneurs fall in in between these two categories and the driven achievers[154]:

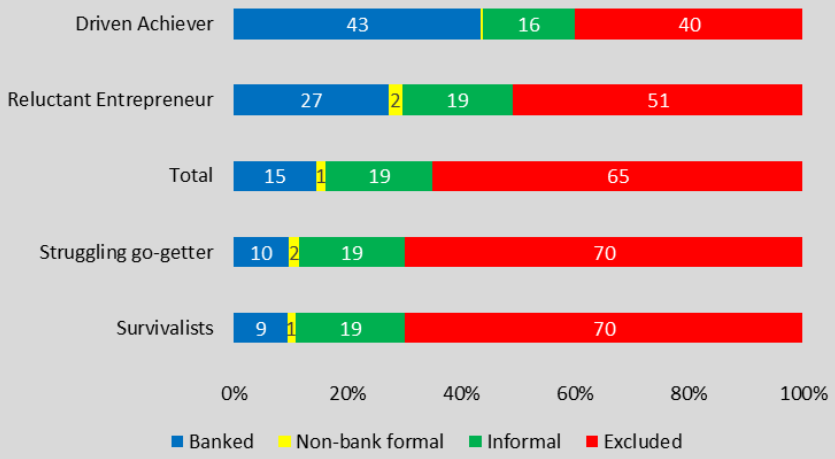


Figure 34: Financial access strand for microenterprise sub-sections (expressed as percentage of adults)

Source: FinScope 2014

Top two sub-segments save more formally, but informal savings fairly constant across. When savings behaviour is broken down by profile, 50% of Driven achievers and 30% of Reluctant entrepreneurs that save indicated that they save in a commercial bank, compared to only 12% of Struggling go-getters and 12% of Survivalists saying the same. *Xitiques* are most popular with Survivalists, with 30% indicating that they use this savings vehicle, compared to 26% of Driven achievers. Interestingly, Struggling go-getters are the least likely to make use of *xitiques*, at 23% whilst Reluctant entrepreneurs are the second least likely at 27%.

Credit usage among MSMEs will be considered in more detail in **Section 6.2: Market for credit**. Remittances usage is not tracked in the MSME survey. Where insurance is concerned, the only insurance-related questions asked in the MSME survey is whether the business provides insurance benefits to employees and whether the business is insured – not if the person surveyed is him or herself insured:

Only educated entrepreneurs provide insurance for employees. Insurance benefits for employees are primarily provided in businesses where the entrepreneur is educated, with 10% of Driven achievers and 6% of Reluctant entrepreneurs indicating that they provide some type of insurance. Within these categories, medical insurance and funeral cover are the most popular, whilst disability insurance features somewhat. Of Struggling go getters, 2% indicate that they provide their employees with insurance whilst only 1% of survivalists indicate the same[155].

Business insurance unpopular and misunderstood. Insurance for the business in its own right is used **only** by some Driven achievers, where 8% of respondents indicate that they have this type of insurance. Less than 2% of all the remaining categories indicate that they have business insurance. The principle reasons for not

having business insurance are similar across the categories, with not knowing that insurance products exist to meet their needs representing approximately a third of all the segments. This is followed by the belief that they do not need insurance (about 15%) or that their business is not insurable (about 10% of respondents).

Key needs: Microenterprise target market

The needs of this target market vary substantially, depending on the aspirations as well as educational attainment of the business owner. Broadly speaking, however, business owners of all incomes have a need to smooth their cash flow in order to buy stock. Enabling this through various interventions may enable businesses to grow beyond their current constraints.

Targeted interventions for business owners that have both the potential as well as the drive to succeed (the so-called "driven achievers") may be particularly worthwhile, as they are a key target population to broaden the base of economic growth. Whilst this represents a small fragment of MSMEs concentrated largely in urban areas, their ability to grow and employ their peers should not be underestimated. Survivalists, on the other hand, may simply need the ability to transact and smooth their incomes over time, whilst the struggling go-getters may want credit, but may not be in a position to repay. Reluctant entrepreneurs might well have the capacity to repay credit, but not the drive to grow their business. They may hence be more interested in savings products.

4.3.4. *Biscato*

Biscato is the term for "piece worker" or "casual labourer" in Mozambique. This target market thus represents those wage labourers without regular work, whether formal or informal. These workers frequently move between jobs, wherever they can find them.

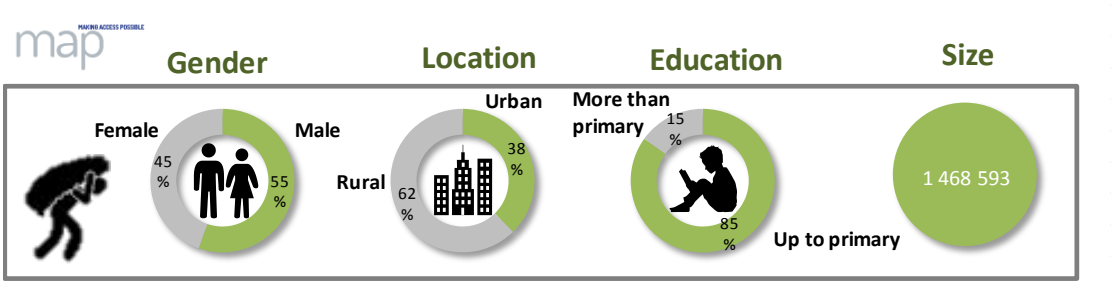


Figure 35: *Biscato* key indicators

Source: FinScope (2014)

Slightly more urban and male than average, second lowest income. *Biscatos* represent 10% of the adult population in Mozambique. They are spread unevenly throughout the country, being particularly clustered in the provinces of Gaza, Inhambane, and Maputo Province. This target

[154] These access strands are based on the MSME survey and are not directly comparable with the FinScope 2014 survey due to different definitions. The inclusion of these here serve only to enable a comparative analysis between the different sub-groups in the microenterprise target market segment.

[155] In both cases, it is statistically impossible to reject the null hypothesis of zero use amongst the subsegments of struggling go-getters and survivalists.

market is slightly more urban than the average Mozambican. In terms of their educational attainment, two peaks emerge: those that have only a primary education or less tend to be traders/vendors, whilst those that have more than a primary education are heavily clustered around the basic technician educational attainment. As is the case with most other target markets in Mozambique, they are heavily involved in agriculture, with three out of four respondents in this target market indicating that they are involved in agriculture, mostly for their own consumption. They are the second lowest income group after dependents, with an average monthly income of MZN 4 414.

Low levels of financial inclusion. *Biscatos* are more included than farmers, but less so than any of the other groups, with only 45% having any kind of formal or informal financial service. This figure reduces to 32% if financial services via family and friends are not taken into account. They have extremely low take-up of credit and insurance. They also have the lowest usage of informal savings mechanisms, which consist primarily of *xitiques*. This may be due to the fact that *xitique* membership requires a stable income in order to meet regular contribution requirements – and by their nature, *Biscatos* do not have a regular income. Qualitative research suggested that if a member fails to contribute on time, they stand to lose their *xitique* membership.

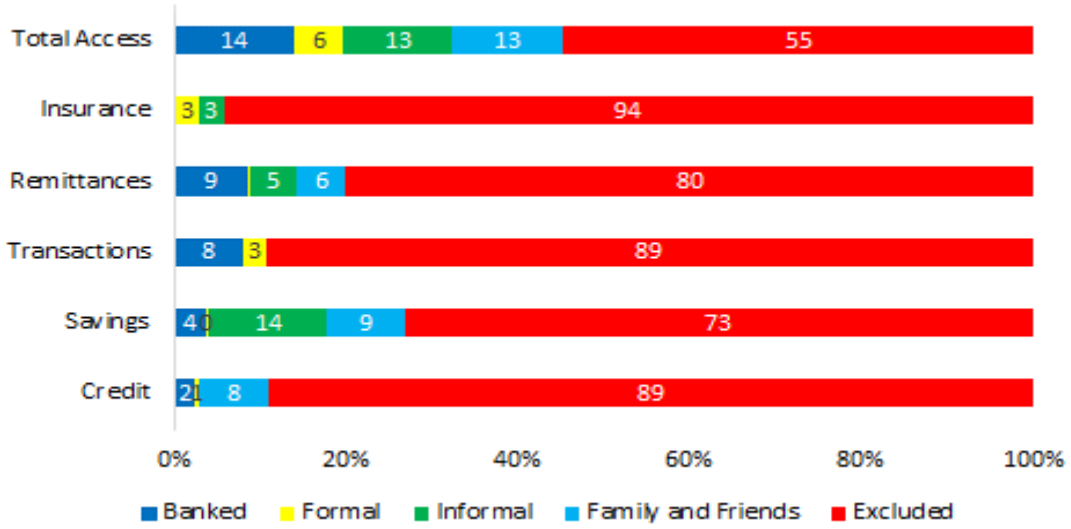


Figure 36: *Biscato* product strands

Source: FinScope (2014)

Limited access strand overlaps. There exists more overlap between the various access strand categories than for farmers or dependents, however the overlap is still very limited. *Biscatos* that are included, broadly speaking, either make use of banked and/or formal finance, or of informal finance.

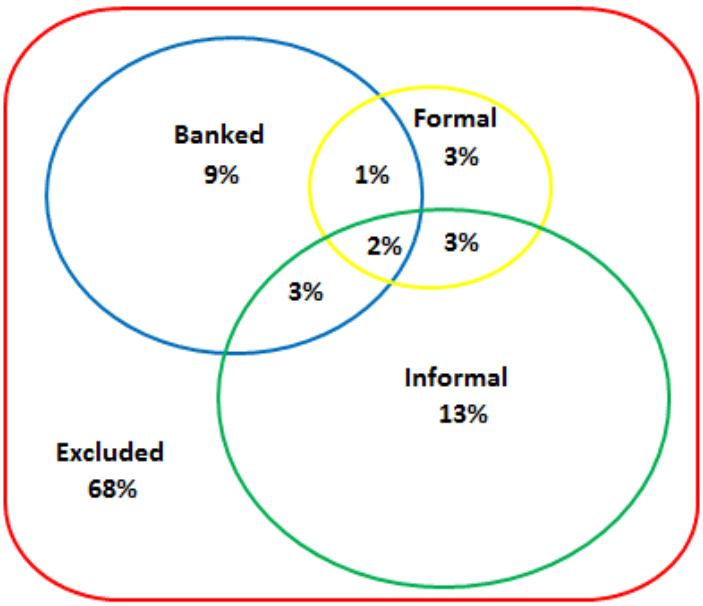


Figure 37: Overlaps between product categories for *Biscatos*

Source: FinScope 2014

Risk perception close to that of the average Mozambican. Individuals in this target market have very similar risk perceptions to the average Mozambican. However, they are significantly more fearful of a poor harvest, likely due to their role in seasonal agricultural work.

Key needs: *Biscato* target market

Biscatos have a particularly unstable income profile due to the short term nature of their employment. They also typically have very low skills levels, with limited scope for progressing to formal employment. All of this severely challenges formal as well as informal financial service usage – as witnessed in the very low penetration level of those types of services requiring regular contributions. At the same time, their low and irregular incomes suggest a need for income smoothing instruments. Furthermore, those that travel to find work elsewhere, for example to pursue seasonal opportunities in agricultural work, have a need to remit safely and securely.

Since this group does not belong to a single industry and are not networked in any organised way, it is very difficult to reach them for financial inclusion purposes. The most viable channel may be via those that employ them, who are more likely to be able to access financial services.

4.3.5. Salaried workers

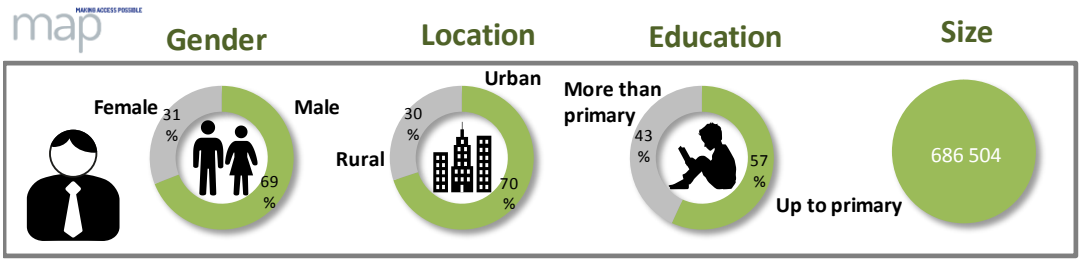


Figure 38: Salaried workers key descriptors

Source: FinScope (2014)

Largely male, middle-aged and urban; well-off and well-educated compared to all but government workers. Only 5% of adults in Mozambique are classified as salaried workers (those with employment in the formal private sector as main source of income). Together with government workers, they constitute the formally employed. The formally employed constitute 9% of the adult population in Mozambique. Salaried workers are the most male, the most urban and the second most educated target market. They are particularly concentrated in the south, in Maputo Province and Maputo City, as well as in Sofala (presumably around Beira, Mozambique's second city). They are however almost absent in the Northern provinces, particularly Niassa, and thus appear to be a more southern phenomenon. They are typically middle aged with 58% of the population falling in the 25 to 44 years age bracket. In terms of their incomes, salaried workers rank favourably compared to the other target markets, as well as the average Mozambican, earning an average of 7 983 meticais per month. This is however still significantly below that of government workers. Their stable incomes and more urban profile may be part of the reason why they are not as heavily involved in agriculture as the rest of the target markets (though almost two out of every three still have some ties to agriculture, most of them just for own consumption).

Relatively high usage of financial services. Individuals in this target market have much higher uptake of financial services than the average Mozambican and are second only to government workers in terms of overall access. Almost two thirds of salaried workers are banked. Yet a substantial proportion (26%) still use *xitiques* in order to save. This is the highest *xitique* penetration of all the target groups. Credit and insurance usage is significantly higher than for most other target market segments, but still relatively low: just more than one in every ten salaried workers have formal credit and only 18% have formal insurance.

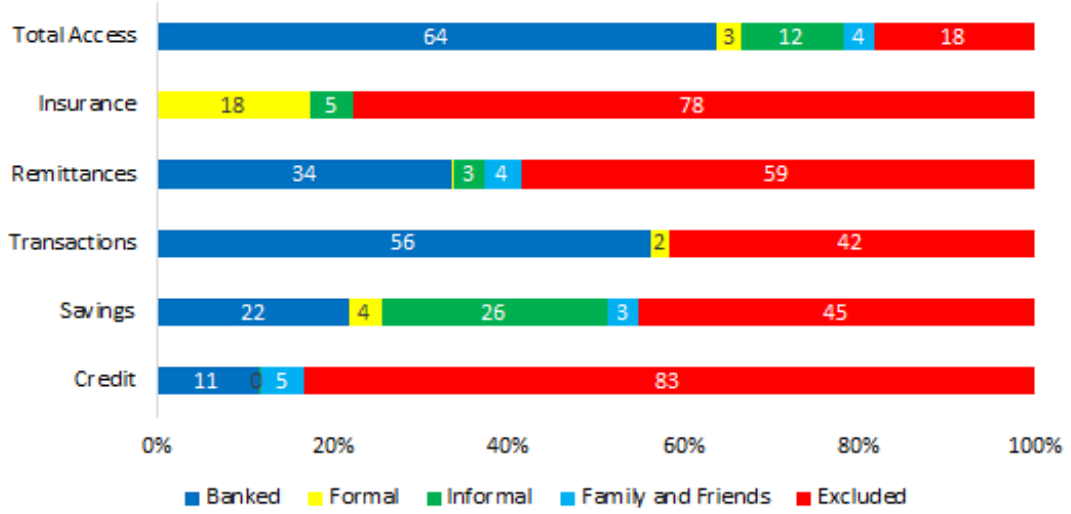


Figure 39: Salaried workers product strands

Source: FinScope (2014)

Large access strand overlaps. Salaried workers, by virtue of their superior income, have better access to banked products. They do however none the less still make use of informal products, leading to a large overlap between those that use banked products as well as informal products. They also use a wider variety of categories to meet their financial needs, with 15% of this target market being included across all three access strand categories.

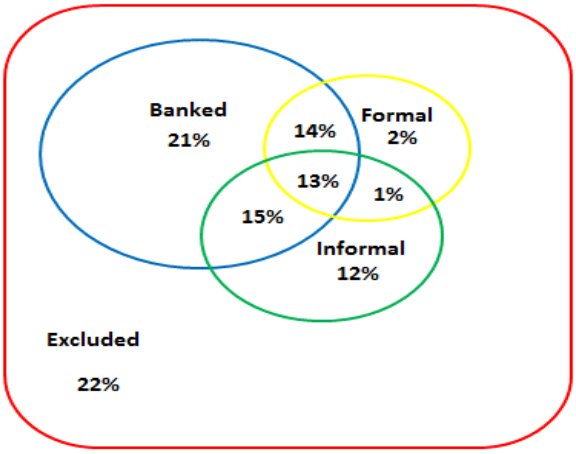


Figure 40: Overlaps between product categories for salaried workers

Source: FinScope (2014)

Less worried about illness, more worried about job losses. Salaried workers worry significantly less than the average Mozambican about illness or accidents, possibly due to the fact that they are much more likely to be insured than the average Mozambican. They do however worry considerably more about losing their job than the average Mozambican. They are also significantly less concerned about poor harvests.

Key needs: Salaried target market

Salaried workers have stable incomes and due to their employed and urban status are more likely than most to be able to meet typical eligibility requirements for financial services. Therefore the main barriers to further uptake are unlikely to be absolute access barriers (with the exception of affordability for those at the lower-end of the income spectrum) and may relate more to preferences, convenience and other usage barriers. In particular, their high level of informal savings suggests a savings need not currently met by the formal product offering.

4.3.6. Government workers

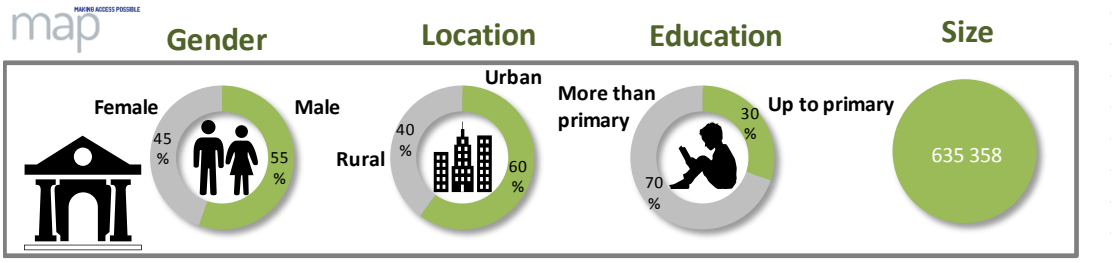


Figure 41: Government workers key descriptors

FinScope (2014)

By far the most educated, wealthiest segment. Government workers are the other component, along with salaried workers, of formal employees and represent 4% of the adult population. Of all of the categories, government workers are the most educated. This higher level of education is rewarded with the highest average monthly income of any target market, at MZN15 027. Government workers are more balanced in terms of their gender split than salaried workers. They are also the second most urban category, behind salaried workers. Interestingly, over 50% of government workers are located in Cabo Delgado and Nampula collectively. Though government workers are the least involved in agriculture of all the segments, it is significant to note that more than half (58%) of them are still involved in agriculture in some way. Of those that are involved in agriculture, 64% indicate that it is primarily for their own consumption, whilst 35% indicate that they produce some surplus that is available for sale.

Best served all around. Government workers have by far the highest uptake of formal financial services, at 85%. Only 4% of government workers are totally excluded. They have relatively high uptake in all the product strands compared to the other target markets. Interestingly, despite their high level of banked inclusion, about one in every five government workers still use only informal saving mechanisms for their savings needs. Government workers are less likely to use credit than other financial services, at only 41% formal and 4% informal only. They are the best included segment in terms of insurance products overall, as well as formal insurance products. A large proportion of them nonetheless have no form of insurance.

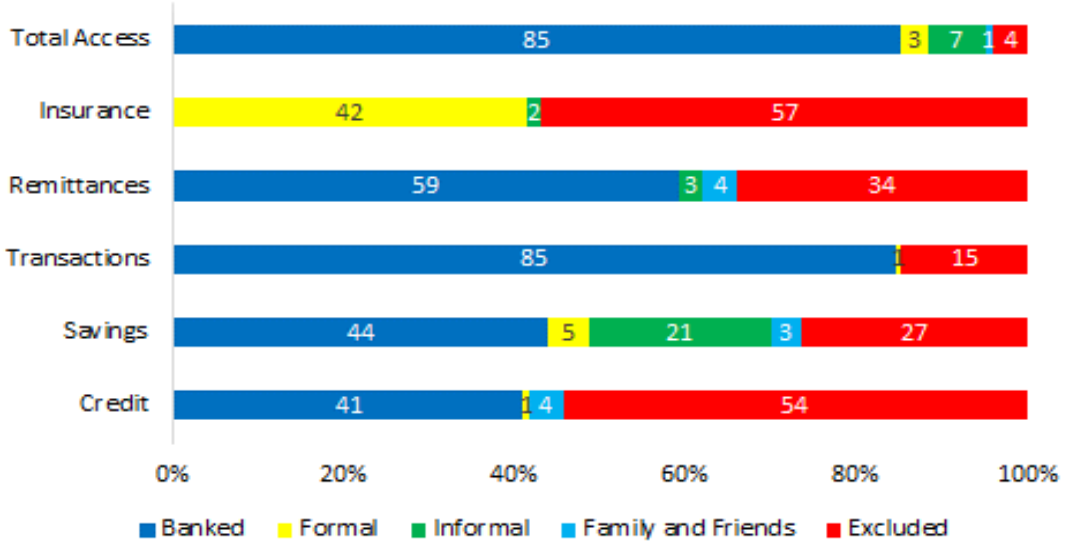


Figure 42: Government workers product strands

Source: FinScope (2014)

Important role as providers for others. Sixty-six percent of government workers are involved in sending remittances, with 57% of government workers remitting to someone elsewhere in Mozambique. In contrast, only 32% of government workers receive remittances, highlighting the critical role that this target market plays in supporting those elsewhere in Mozambique.

Use a portfolio of product types to meet their needs. The small non-bank formal and informal-only categories in the access strand mask the diversity of usage amongst government workers. This is revealed by the large overlap that formal and banked financial service uptake has with informal uptake. Twenty-nine percent of government workers are served across all three access strand categories – the largest overlap of all the segments. **Figure 43** also reveals that a larger proportion of government workers use non-bank formal financial services than the other target markets, even though the percentage that use non-bank formal services *only* is just 2%.

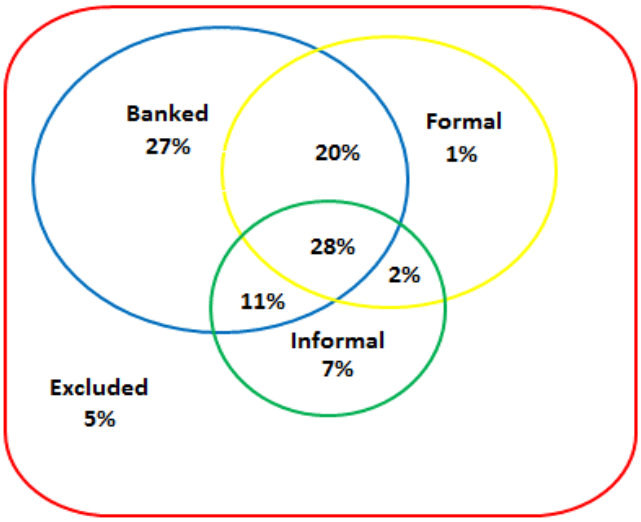


Figure 43: Overlaps between product categories for government employees

Source: FinScope (2014)

Worried about their jobs and their health. Whilst individuals in this target market are more worried about all risks except for a poor harvest than the average Mozambican adult, they are particularly concerned about the loss of their job, their property, or illness of either themselves or a member of their family.

Key needs: Government workers

Given their high incomes, superior education as well as all round good access to financial services, government employees may not be the primary target for further financial inclusion, at least where basic banking services are concerned. However, there is still substantial room for growth in terms of credit, formal savings, and insurance penetration. This is particularly true of those on the lower-end of the income spectrum within government employment. Whilst this target market may not be a high priority for further financial inclusion in its own right, government workers can play an important role in including others that they support, for example via remittances or access to credit.

5. Financial sector overview

Since the end of the civil war in the 1990s, the Mozambican financial sector has seen many reforms. This includes the privatisation of state-owned banks and the upgrade of the payments system architecture to allow for real-time gross settlement (RTGS). These financial sector reforms have led to an increase in the number and types of financial institutions and steady development of the financial sector.[156]

This section provides an overview of the various types of financial service providers in the

[156] World Bank, 2014. *Elements to consider when establishing the envisaged Development Bank of Mozambique.* Policy Note, January 2014. Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/03/19/000333037_20140319124838/Rendered/PDF/860830PN0P13180ambique0Final0140207.pdf

Mozambique financial sector. By providing an institutional lens that cuts across product markets, this lays the platform for each of the product market discussions to follow in **Section 6.** It also provides an overview of the distribution channels used across institutions and product markets, looking at the nature and footprint of traditional means of distribution, as well as emerging alternative distribution channels. For a discussion of related regulatory issues, please see **Section 3**.

Key issues in the provision of financial services in Mozambique

Provider landscape:

- Financial sector dominated by commercial banks, most of whom focus on high net worth individuals and corporations
- Ownership structure plays a significant role throughout the financial sector
- A variety of players across numerous regulated categories, many of them very small, make for a fragmented microfinance and credit institution provider landscape
- Insurance providers follow traditional general and life split and the landscape has grown from one to 16 over the past two decades, with most of that growth taking place from 2008 onward.
- The pension market is still in its infancy
- Government and private payment system players are vying for position, with no full interoperability yet even though this functionality is already available.

Distribution:

- Traditional banking and microfinance infrastructure has a limited reach in rural areas, despite government emphasis on rural branch-based expansion. As a result, most adults face severe proximity access barriers.
- Mobile network operators, given their rural reach and large footprint compared to retailers and FSPs, would be the most viable alternative distribution option. Retailers, fuel stations, informal traders and some players in the agricultural value chain have scope to reach into rural areas, but leveraging such outlets face significant challenges.

5.1. Institutional landscape

A diverse set of providers. The financial institution landscape in Mozambique comprises different levels of regulatory oversight and regulation defines a range of service providers. **Figure 44** shows the types of financial institutions provided for in Mozambique and their permissible scope of operations across the four product markets (credit, savings, insurance and payments). It also indicates their level of supervision: either as prudentially regulated entities (such as commercial banks and MFIs) or entities that are monitored even though not subject to prudential requirements (e.g. savings and credit organisations). Lastly, the diagram also indicates the completely informal entities (e.g. *agiotas, xitiques* and VSLAs) that emerged during the analysis:

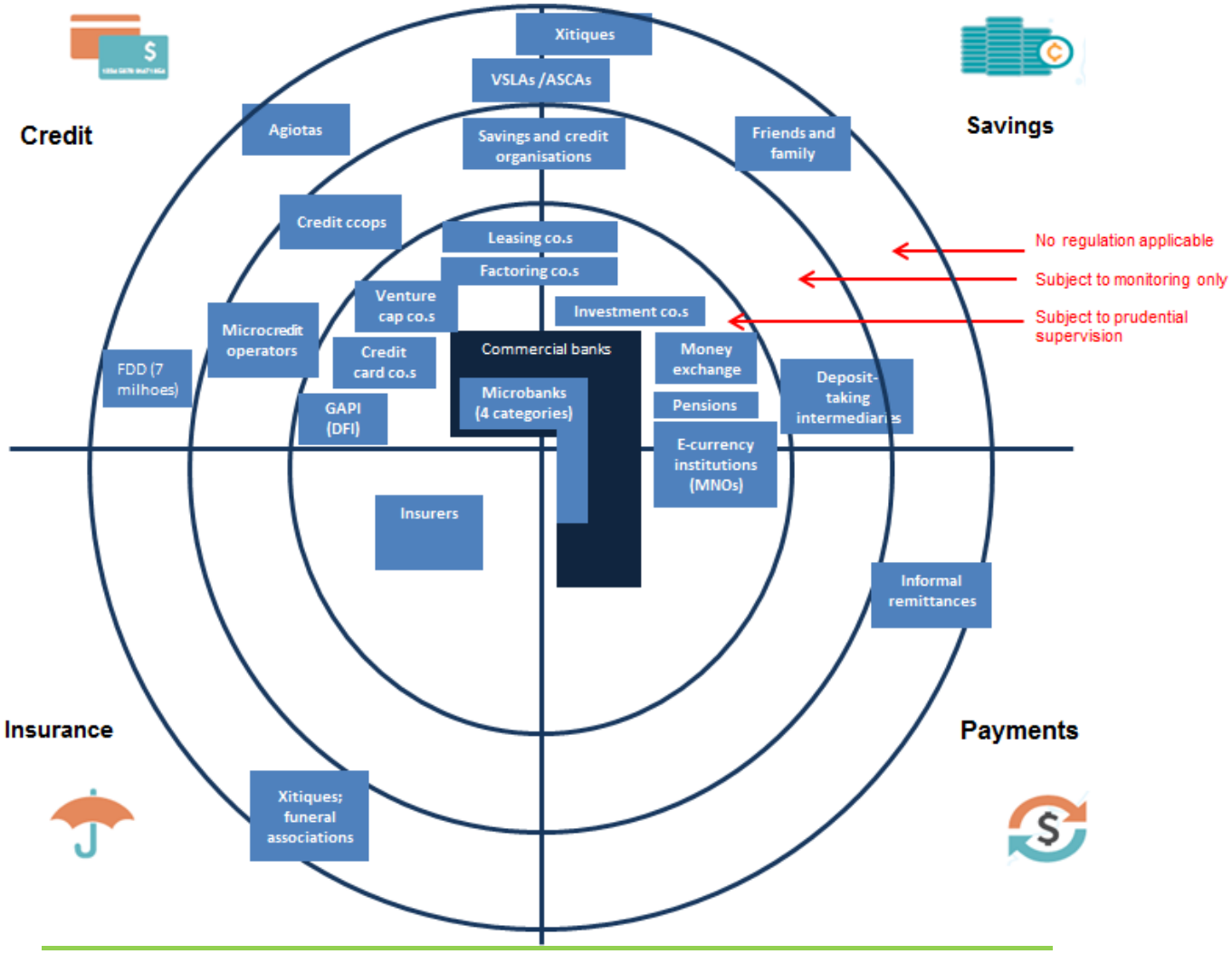


Figure 44: Financial sector landscape of Mozambique

Source: own analysis based on BdM Annual Report (2013) and consultations

Actual registration does not span all the categories. **Table 10** shows the number of institutions registered with the BdM. The landscape has remained fairly stable over the past three years, with limited entry and exit. The one area which has seen significant new registrations, though, is that of microcredit operators (growing from 166 in 2011 to 233 in 2013):

Number of institutions by type of provider	2011	2012	2013
Commercial Banks (of which 4 are classified as MF-focused commercial banks[157])	18	18	18
Microbanks (of which 2 are payroll lenders)	8	8	10
Credit cooperatives	7	7	8
Leasing companies	0	0	0
Microcredit operators	166	199	233
Investment companies	1	1	3
Credit card companies	1	1	2

[157] This refers to four commercial banks that were previously MFIs and that remain focused on the microfinance market, namely Socremo, BOM, Tchuma and Procredit. They are supervised by the BdM in the same way as other commercial banks, though technically with proportionate prudential requirements.

Number of institutions by type of provider	2011	2012	2013
Electronic money institutions	1	1	2
Venture capital companies	1	1	1
"Sociedades Administradoras de Compras em Grupo"	1	1	1
Money exchange companies	21	19	19
Savings and loans organisations	10	11	12

Table 10: Number of registered institutions in the banking system per category and share in total assets

Source: BdM Annual Report (2013)

Market dominated by a few large commercial banks. Despite the institutional and regulatory diversity, the commercial banks account for 97.6% of total formal financial sector assets according to 2013 BdM data. The table below shows the relative spread of market shares by assets, deposits and credit across the financial system. The four largest banks consistently dominate. Four mid-range institutions hold between 2 and 6% market share each and the majority of financial institutions have very low market share:

Market shares by:	0-2%	2-6%	>6%
Assets	CPC, MCB, BNI, Procredit, Socremo, Capital Bank, Tchuma, BOM, BTM, ACMicrobanco, GAPI, UBA, Letshego, CFCaia, CPPM, Yíngwé.	Mozabanco, ABC, BÚnico, FNB	BIM, BCI, STB, BBM
Deposits	CPC, MCB, Procredit, Socremo, Capital Bank, Tchuma, BOM, BTM, UBA, CFCaia, CPPM	BBM, Mozabanco, BÚnico, ABC, FNB	BIM, BCI, STB
Credit	CPC, MCB, BNI, Procredit, Socremo, Capital Bank, Tchuma, BOM, BTM, ACMicrobanco, UBA, GAPI, Letshego, CFCaia, Yíngwé, TFM	BBM, Mozabanco, Bùnico, ABC, FNB	BIM, BCI, STB

Table 11: Financial system market shares

Source: BdM Annual Report (2013)

Below, a brief overview is provided of the various categories of institutions in the Mozambican financial sector. A more in depth overview as relevant to each product market will be provided in **Section 6: Product Markets.**

Banking sector

Concentrated market. The number of commercial banks in Mozambique has increased from four in 1994, to twelve in 2000, to eighteen in 2014. This includes four MFIs which have converted into commercial banks. The banking market is relatively concentrated. At the end of 2013, 79% of the total system's assets was concentrated in the four largest banks (BIM, BCI, Standard Bank and Barclays Bank). They also account for 78% of the formal financial sector's total loan book and 82% of deposits (BdM Annual Report, 2013). A similar picture emerges when considering market shares in terms of number of customers as reflected in the FinScope (2014) survey*:*

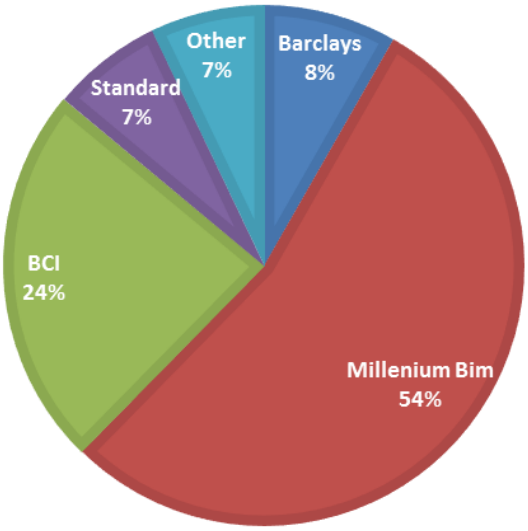


Figure 45: Market share of largest banks based on number of customers

Source: FinScope (2014)

Full suite of services. In contrast to most of the non-bank financial institutions (see Table 12, page 106), banks are allowed to provide a full range of services, including taking and intermediating deposits from the public and extending credit to the public.

Only one majority Mozambican-owned bank. Mozabanco is the only bank with a majority Mozambican shareholding. The others are either owned privately by Portuguese authorities (66%), the government of Mozambique (23%, BIM), the government of *Portugal via Caixa Geral de Depósitos, SA.*, privately by South African banks (Standard Bank, Banco Unico, FNB), privately by African (BancABC, UBA) or other countries, or other foreign-owned. The Mozambican Government also maintains equity positions in some banks.

Trade-offs for diversity of ownership of banks. There are risks and benefits to an institutional arrangement where the ownership of banks is diversified across different regional and national groups. The diversity in ownership provided Mozambique with a cushion to the worst of the international financial crisis in 2008 and 2009. Particularly with shareholders exposed to the hydrocarbon markets, from. However, international institutions (or their parent European companies) are still recovering from the impact of the financial crisis and have less incentive to reinvest their capital in Mozambique for further development of the portfolio. Other regional private and state enterprise investors have similar cyclical exposure to hydrocarbon markets.

Focus on corporate banking. Despite the increased the number of banks, retail and small and medium enterprise banking remains low. Bulk and wholesale, corporate banking and high-net-worth clients constituting the majority of the banks' business.

Formal banking system generally healthy, profitable. The reported capital ratio in the banking sector rose from 14% in 2002 to 17.9% in 2012 and then tapered to 16.9% in 2013 due to a net rise in risk weighted assets. Non-performing loans (NPLs) fell dramatically, and both domestic deposits to GDP and private credit to GDP have increased since 2004[158]. In 2013, the

[158] Bank of Mozambique, *Annual Report 2012.*

total banking system solvency ratio was 16.9%, down slightly from 17.9% in December 2012 (BdM Annual Report, 2013). The current regulatory framework requires a solvency ratio of at least 8% so as to allow financial institutions to absorb any losses that may result from adverse shocks on their balance sheets.

On a consolidated basis, the banking system is also profitable: due to growth in both net interest income and net commissions, the income of the banking system rose by 33% in 2013. Operating income now represents 19.6% of total income, up from 16.6% in December 2012. While average annual lending rates decreased from 22% to 19% between 2012 and 2013, and the deposit interest rate decreased from 11% to 8%, the spread has remained virtually unchanged at around 11%. The stable spread, together with growth in the loan portfolio, contributed to a growth in net interest income of 14% over the year (BdM Annual Report, 2013). Increased income reversed the downward trends in profitability witnessed in previous years to see the Return on Equity (ROE) rise from 19.6% in December 2012 to 20.8% in December 2013. Return on average assets (ROA) also increased slightly from 1.9% to 2% over the same period (BdM Annual Report, 2013).

Stable but high cost to income ratios. Cost to income ratios in the banking sector remained relatively stable in 2013, reaching a peak of 72.4% in February 2013 before decreasing to 64.3% in December. Cost ratios vary across institutions: one systemically important bank, a number of microbanks and credit unions have above-average ratios, whereas three systemically important banks perform below the system average. For those with higher than average figures, the main reason quoted is high personnel costs due to expansion of activities and costs related to the opening of new branches (BdM Annual Report, 2013).

Demand deposits an important funding source. Deposits are the main funding activity in the liability structure of credit institutions. Deposits grew by 19% in 2013 compared to 2012. Demand deposits represent 63% of total deposits (down from 65% in December in 2012), compared to just more than 36% for term deposits (BdM Annual Report, 2013).

Capital constraints define operating incentives. As noted in **Section 2: Context drivers of market development**, Mozambique is heavily dependent on refined fuel imports. PetroMoc cannot accommodate the currency conversion from USD as it has limited USD sales (which is mainly sold to neighboring countries) and would thus not be in a position to purchase large amounts in USD. Hence, PetroMoc has no option than to purchase fuel in MZN. Thus the banking sector needs to facilitate large foreign exchange guarantees and transactions to enable the purchase of fuel by Petromoc. This has repercussions in the banking sector, as the the size of ongoing USD guarantees required to import shipments of fuel is disproportionate to the size of commercial banking balance sheets to the extent that it constitutes a concentration risk. To overcome the concentration risk, the banks syndicate and spread the USD guarantees across the banking industry to almost all viable balance sheets. While the three largest banks account for 36% of the syndicated financing, many of the middle tiered and smaller banks also participate.

The *quid pro quo* for the banks is that the exchange risk is carried by PetroMoc and that the exchange is facilitated using the single worst historic spot rate reached on the date of the fuel lands in Maputo harbour. This effectively means that the entire nation's fuel imports is priced at the weakest MZN-Dollar exchange rate for the day, and that banks can make a large profit on the transactions. They therefore have no incentive to reduce the petrodollar activities on

their balance sheet. This phenomenon is illustrated by the case of BCI, where its annual report for 2013 shows that, just over 20% of the deposit book is , in USD, but reported in MNZ at the market rate:

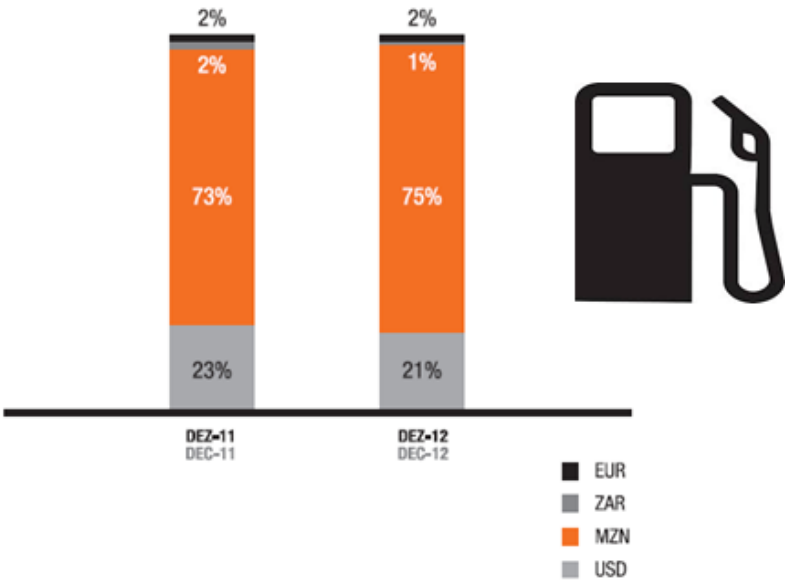


Figure 46: Deposits by currency – the case of BCI

Source: BCI Annual Report 2013

Petrol imports contributing factor in limited retail credit. Together with regulatory and prudential limitations on lending in foreign currency and high local currency prudential requirements, the petrodollar commitments create local currency liquidity limitations on local balance sheets. USD guarantees require that USD assets be pledged and ring-fenced, which implies that those assets are not available for credit extension. As will be discussed in **Section 6.2: Market for credit**, the petrodollar diversion thus contributes to the fact that most banks focus on the corporate, government and high net worth individuals market, with very little retail focus in the middle to lower end of the market. Crudely put, banks can simply make more profits off petrodollar financing than trying to service costly, low-revenue clients.

This also holds for MSME lending. As it's costly in terms of time and skills to lend to MSMEs, with much less revenue, the constrained balance sheet means that there is no incentive to serve this market. This is once again illustrated by the case of BCI, which is illustrative of trends in the industry more broadly. In 2013, credit to companies was more than double that of retail lending for BCI. SMME lending is low on the priority list, as is institutional lending (e.g. to MFIs). At a sector level, this leads MFIs to increasingly being capital constrained and reliant on donor funding (see the discussion in **Section 6.2: Market for credit**)

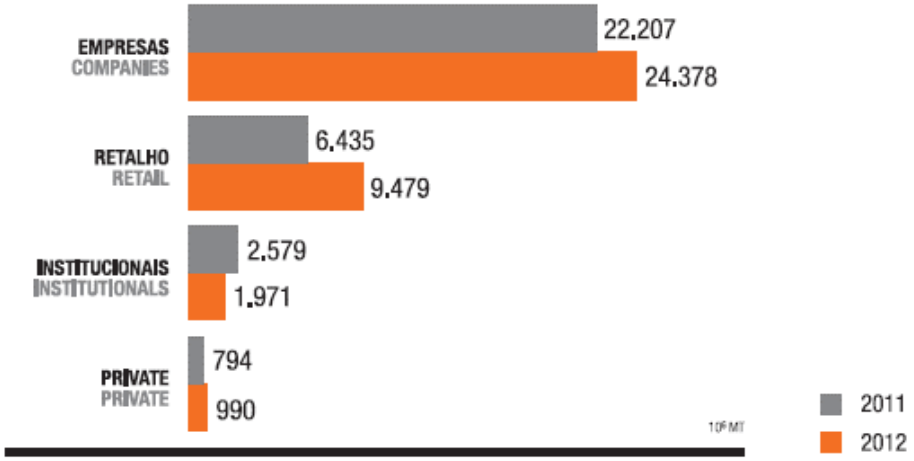


Figure 47: Credit by segment – the case of BCI

Source: BCI Annual Report 2013

Impacts on banking sector playing field. The diagram below summarises the effects on the "playing field" of the commercial banking sector in a stylised way. It indicates which banks are involved in petrodollar financing, which are focused solely or largely on corporate, government, institutional and high net worth clients in urban areas (shades of blue) and which have more of a rural presence (shades of green):

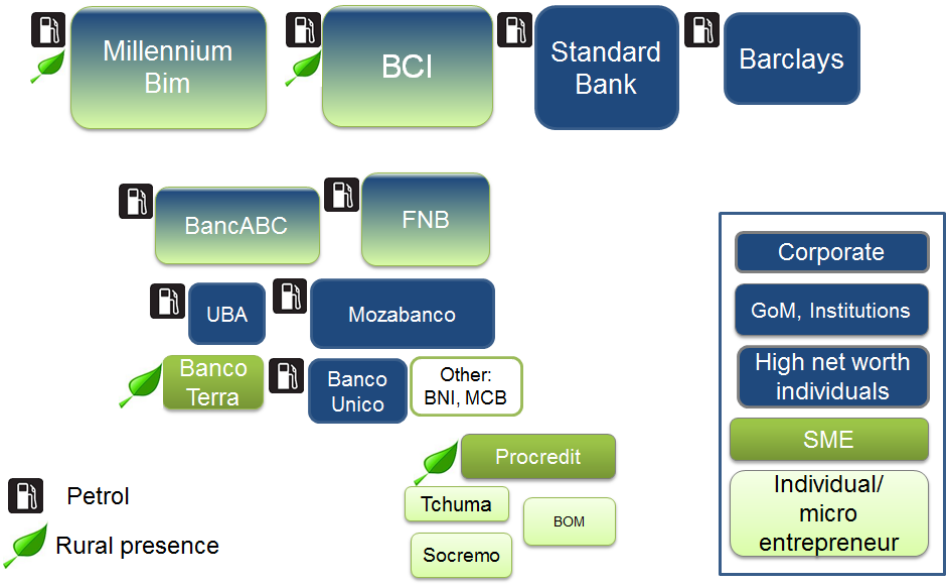


Figure 48: Target market[159]

Source: authors' own, based on consultations and annual reports

Non-bank credit, microfinance and deposit-taking providers

Compared to the banks, the non-bank microfinance players indicated in **Figure 44** are small and not systemically important. Here, the types of institutions in this category are considered

[159] Please note Banco Tchuma has been taken over by two other banks.

in more detail.

Permissible activities vary by type of institution. **Table 12** below outlines the various categories of institutions allowed for under the general regulatory framework for microfinance (Decree 57/2004; hereafter referred to as microfinance regulations), as well as the types of services permitted for each type:

Type of institution			**Permissible Activity**			
			Deposit Taking		**Credit provision**	**Other Listed Activities**
			From the public	Intermediate Deposits	To the public	
Credit institutions: *Subject to prudential supervision*	Finance leasing companies		Yes, Approval Required	Yes, Approval Required	Yes	Yes, Approval Required
	Factoring companies		Yes, Approval Required	Yes, Approval Required	Yes	Yes, Approval Required
	Investment companies		Yes, Approval Required	Yes, Approval Required	No	Yes, Approval Required
	Electronic currency institutions		Yes, Approval Required	Yes, Approval Required	No	No
	Other firms		No	No	Yes	No
	Credit Card companies		No	No	Yes	No
	Venture Capital companies		Yes	Yes, Approval Required	No	Yes, Approval Required
	Money Exchange		Yes	No	No	No
Microfinance operators: *Subject to prudential supervision*	Micro Banks	Savings and Credit Bank	Yes	Yes	Yes	Yes, Approval Required
		Rural Financial bank	Yes	Yes	Yes	Yes, Approval Required
		Savings bank	Yes	Yes	Yes	Yes, Approval Required
		Postal Savings Bank	Yes	Yes	No	Yes, Approval Required
Microfinance operators: *Subject to Monitoring*	Credit Cooperatives		Members only	Yes	Members Only	Yes
	Savings & Credit Organizations		Members only	Yes	Yes	No
Other institutions: *Subject to Monitoring*	Microcredit Operators		No	No	Yes	No
	Deposit Taking Intermediaries		Yes	No	No	No

Table 12. Outline of the supervised/monitored microfinance landscape

Source: Bdm Annual Report (2013)

Among the **supervised entities**, the following trends can be noted:

Limited scope for credit institutions outside of banking sector. As indicated in Table 10, page 101, there has been very little take-up of licenses in the 8 regulated categories of non-bank credit institutions.

Microbanks are limited in number and reach. Since 2004 only 10 microbanks have been registered. Apart from the four regulated categories of microbanks, they can also be distinguished by ownership and purpose:

- *Donor-funded rural, savings and savings and credit banks*. The majority of these operations have received their seed capital from donor or NGO funding. For example, A Caixa Financeira de Caia was initiated as a savings microbank and started operating in 2010 with seed funding from the Cooperação Italiana (the Italian Government's donor arm) with a value of MZN 13.5m. (USD451 000). The programme was endorsed by the Ministry of Planning and Development.[160] The First Microbank (FMB-M) has its origins from 2004 as a microfinance NGO programme, which recently evolved into a rural microbank that forms part of the Aga Khan Agency for Microfinance (AKAM). By late 2009, FMB-M had disbursed over 2,000 outstanding loans, amounting to approximately USD1 m.[161] Caixa Financeira de Catandica in Barue, Manica is a rural microbank and was kick-started in 2009 with funding from IFAD and the AfDB.[162]
- *Payroll lenders new, fast growing entrants.* Two of the savings and credit microbanks are conventionally known as "payroll lenders". Letshego Group, a Southern African regional payroll-lending group listed on the Botswana stock exchange, entered the Mozambique market in February 2011, providing credit exclusively to government workers through payroll deduction. It has expanded its branches in provincial capitals and has a strictly urban footprint. It has seen dramatic growth in its credit book (see **Section 6.2: Market for credit**). The company is looking to graduate to a full commercial bank licence, which will enable it to fuel its credit book by taking on deposits. Bayport Financial Services, a pan-African payroll lender with South African origins is the latest entrant to take up a microbank regulatory category. The company is in its early stages in Mozambique but has a strategy to target more rural areas and lend to government workers.
- *Postal bank has only limited operations.* At present, the postal savings microbank only conducts operations in Lichinga, Niassa. The postal bank is funded and created by Gapi, the country's single development finance institution (see below).

Where the **monitored-only** entities are concerned, a distinction is made between monitored microfinance institutions and other institutions, each comprising two types of entities:

- *Credit cooperatives and savings & credit organisations*. The first category consists of credit cooperatives and savings & credit organisations. Both may take and intermediate deposits, plus extend credit, but the latter may extend credit beyond its membership base. They are known in Mozambique as Organizações de Poupança e Empréstimo (OPEs), the largest of which is CCOM (with c. 10 000 clients).

[160] Article. http://noticias.sapo.mz/aim/artigo/186401082011142643.html
[161] Website: http://www.akdn.org/Content/987
[162] Blog: http://baruemozambique.blogspot.co.uk/2012/08/plataforma-da-sociedade-civil-acusada.html

- *Microcredit operators and deposit intermediaries*. According to the BdM Annual Report for 2013, there are 233 microcredit operators (up from 199 in 2012), some of which (e.g. Kuthokoza and Mdzua) are also new members of the Mozambican association of microfinance institutions, AMOMIF. These are small companies and are considered formal, monitored money-lenders. There are at present no known monitored deposit intermediaries in the country.

Informal MFIs. There are a number of MFIs not registered under either of the categories above. They are mostly NGO-backed microfinance operations including AMODER, Kulima and Hluvuku, all of which along with the microfinance commercial banks are part of the Mozambican microfinance association (AMOMIF)[163]. Some of these microfinance operations are considered ancillary to the core focus of the development NGOs themselves, whilst others are exclusively focused on microfinance. For example, a rural development project may initiate microcredit operations to support its core programme as in the case of Associacao Progresso (which has since closed down its microfinance operations).

Development finance

Gapi as the single development financial institution (DFI). Gapi is registered with the BdM as a *sociedade de investimento*. One of the focus areas of the organisation is the development of rural banking (*bancarizacao rural*). Its rural banking portfolio funds the creation of microbanks, the promotion of OPEs and accumulative savings and credit associations (ASCAs). Examples of the rural banking funding are: Caixa Financeira de Caia, whose shareholders are Gapi and *Consórcio Italiano de Trento*; Caixa de Poupança Postal de Moçambique (CPPM), whose shareholders are Gapi, *Correios de Moçambique* (the national postal service), mCel e a Fundação Malonda; Yingwé Microbanco, whose main shareholders are Gapi e a Liana Serviços.[164]

Pipeline plans for development bank. The Government of Mozambique (GoM) is considering establishing a development bank. The draft national development strategy[165] proposes the establishment of the Mozambique Development Bank (MDB). The bank would be intended to facilitate diversification of the economy. This would be achieved, in part, by channelling funds from the natural resource sector to service sectors, which can benefit entities such as SMEs. The MDB would do this by providing finance for productive investments, and for facilitating industrialisation. It would also manage three funds: (i) a national investment fund and operate; (ii) a credit guarantee fund; and (iii) an interest rate equalisation fund.

Insurance and pension sector

In addition to the banking and microfinance sector players outlined above, there are 16 insurers, one reinsurer and five pension fund management companies that fall under the supervision of the ISSM (see **Section 6.4: Market for insurance** for an overview).

Significant recent insurance entry, mostly foreign owned. As at August 2014, the insurance sector consisted of 16 licenced insurers, of which four are life, nine non-life and three are composite insurers. Fifteen are privately owned, mostly with foreign links and one insurer,

[163] See http://www.amomif.co.mz/por/Membros3 for a list of AMOMIF members
[164] See website: http://www.gapi.co.mz/content/o-nosso-trabalho/bancarizacao-rural/bancarizacao-rural.php
[165] Estrategia Financarias Rurales, 2012.

EMOSE remains majority government-owned. Ownership structures include a mix of Mozambican, South African, Malawian, Portuguese and Kenyan origins. Portuguese companies were the first to show interest in the Mozambique industry shortly after privatisation initiatives began in the 1990s. Other foreign players, all based in Africa, began entering the market from 2001 after legislative reforms brought regulatory certainty (see **Section 6.4: Market for insurance** for more background). Insurance distribution is still dominated by brokers and bancassurance, though the use of agents is on the rise. According to 2013 ISSM data, there are 56 registered brokers, 25 agents and 295 promoters in Mozambique.

Small insurance market. As the discussion in **Section 6.4: Market for insurance** will show, the sector is small in absolute terms: investments in 2013 totalled USD 526.5mn, up by 26.5% since 2012. Total premiums for the same year represented 1.5% of GDP, up from 1.3% the previous year (ISSM, 2014).

Nascent pension fund sector. The pension fund industry consists of four closed funds (Aeroportos de Mocambique, INAGRICO, MOZAL and Bando de Mocambique) and one open fund (Global Alliance). In addition, there are five pension fund management entities: Kuhanha, Global Alliance, Nico, Standard Bank and Mocambique Previdente. The latter was created in December 2013 by EMOSE, involving NBC Mozambique SA[166], IGEPE Managers[167], and Technicians and Workers of EMOSE. In total, the pension fund industry accounted for MZN 302m in assets in 2014 (ISSM, 2014). This equated to a mere USD 10.1m based on the average exchange rate for 2013[168].

E-money issuers and payment system providers

Two e-money issuers represent a transformation in the financial sector. There are two e-money issuer licences in the country, one for Carteira Movel (part of the MNO MCel), branded as mKesh; the other is Vodacom M-Pesa's mobile money platform. It is envisaged that this will transform the microfinance landscape. For an elaborated discussion on these MMOs, please refer to the market for payments in **Section 6.1: Market for payments.**

Variety of payment systems. The payments system landscape in the country is a crowded one, with no national bank switch or clearing house. There are four payments systems operated by BdM, which covers both physical and electronic payments. But in addition, the two largest banks have their own individual payments systems, three banks share a third payments system, and the remaining 13 banks use Interbancos, an independently-run payments network. Further complicating the situation is the fact that the payments system is typified by a lack of interoperability, and increasing uncertainty about the government's plans for expanding the use of national payments network, SIMO. This complex payments landscape is further discussed in **Section 6.1: Market for payments.**

Stock market

The Mozambican stock market is in its infancy. Securities are listed for 16 entities, of which

[166] A subsidiary of Negotiated Benefits Consultants - NBC Holdings (Pty), South Africa
[167] Institute of Management State Holdings and GETCOOP
[168] Of MZN 0.0334/USD for 2013

only two are corporate equities and the remainder bonds.[169]

5.2. Distribution

Section 2: Context drivers of market development underlined a number of context elements that create severe distribution challenges for financial services in Mozambique. The size and length of the country mean that there are many remote areas and that a high proportion of rural inhabitants are poorly served by physical infrastructure. Low incomes and small transaction values furthermore mean that travelling even short distances to financial services infrastructure represents a significant cost to most Mozambicans. In recognition of the manifold distribution challenges facing the country, the BdM is addressing limited infrastructure as a key priority in enhancing access to financial services. This sub-section outlines the current reach of the traditional financial sector footprint, as well as the scope for alternative channels to extend the reach of financial services.

5.2.1. Traditional financial services distribution

Bank infrastructure reach is limited by regional comparison. **Figure 49** below illustrates that Mozambicans are poorly served in comparison to other SADC countries, at only 1 ATM per 1 000 km^2; 0.6 bank branches per 1 000 km^2; 3.6 branches per 100 000 people; and 34 POS devices per 100 000 people. This ranks Mozambique ninth out of fourteen when compared against other SADC countries.

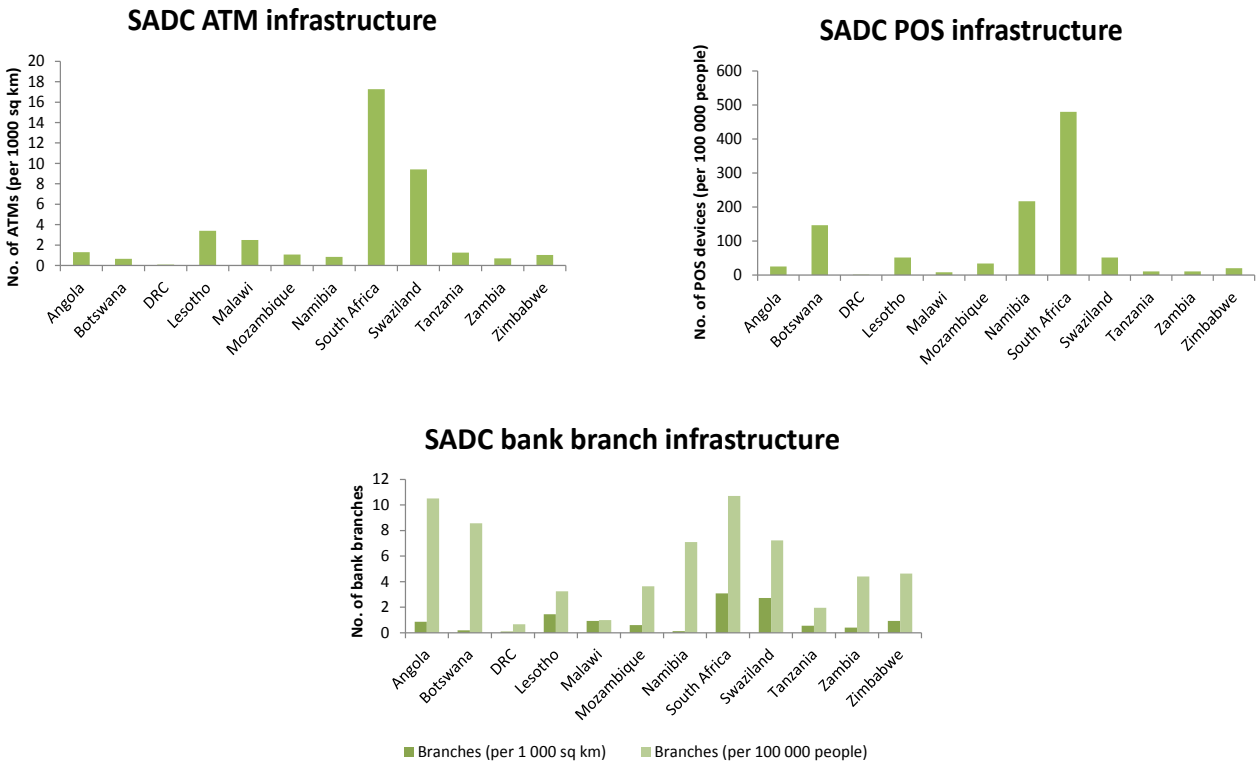


Figure 49: A comparison of SADC countries' traditional distribution channels

Source: Red Flank, 2013.

Expanding banking sector footprint. The reach is improving, however. The number of bank

[169] IMF 2013 FSAP

branches grew from 457 in 2011 to 520 in 2013. Over the same period, the total number of ATMs grew from 853 to 1 078, and then further to 1 302 by the end of 2014. This represents an average increase in the number of ATMs of 18% per annum since 2011. The number of POS devices grew from 6 409 in 2011 to 11 751 in 2013. By December 2014, the number had reached 14 690 – an average of 43% growth per annum since 2011 (BdM Annual Report, 2013).

Infrastructure concentrated in the urban south. Despite the recent expansion of the footprint, the presence of formal financial services outlets in Mozambique's rural districts remains limited. **Figure 50** below illustrates the low penetration of bank branches, ATMs and POS devices in the northern provinces of Zambezia, Niassa, Nampula and Cabo Delgado relative to the percentage of the adult population residing in those provinces. In contrast, Maputo City, which is home to only 6% of adults, accounts for 37% of the country's bank branches, 33% of ATMs and 49% of POS devices. When combined with Maputo Province, the share rises to 47% of all branches, 60% of all POS devices and 45% of ATMs in the country (BdM Annual Report, 2013, reflecting December 2014 data).

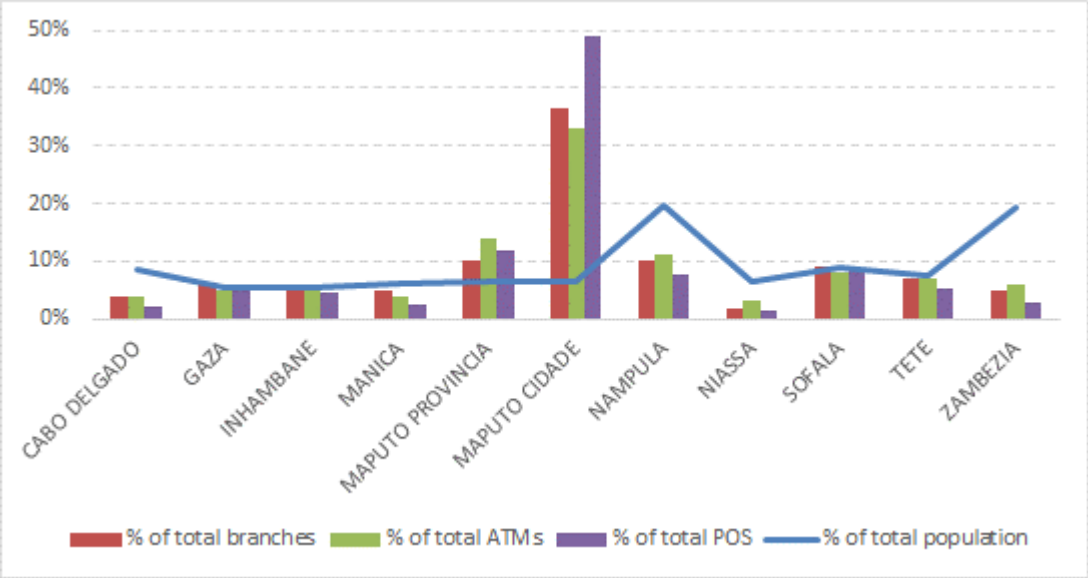


Figure 50: Distribution of banking footprint by province

Source: Compiled by author from data contained in BdM Annual Report (2013) and FinScope (2014)

When taking a more dynamic view, it is however notable that the concentration in especially Maputo City has fallen over the past three years. In December 2011, Maputo City had accounted for 61% of POS terminals and 37% of ATMs. In December 2014 the share had reduced to 49% for POS and 33% for ATMs. This suggests that, over this period, the infrastructure was expanded, proportionately, in other provinces. Where ATMs are concerned, most expansion was in Maputo Province, with limited increase in the share of ATMs in other provinces. POS devices, however, also saw fairly evenly spread growth in most other provinces (BdM Annual Report 2013).

Only two banks significantly expanding rural branch footprint. There is significant pressure on commercial banks to build branches in more remote areas from the BdM (Bank Supervision Department), in consultation with other ministries such as the Ministry of Planning and Development. At present, 60% of districts have banking infrastructure in place, and all provinces are served by branches. Consultation with industry suggests that it is a very costly

activity to build branches in more remote areas that are challenged by poor infrastructure. This sort of bricks-and-mortar expansion requires "patient capital", in which many banks are not usually willing to invest. The two most notable examples of rural expansion are Millennium BIM and BCI. While their bank branch presence is still focused on urban areas, both are expanding their rural bank branch network. BIM's strategy is catalysed by a 17.2% GoM shareholding in the bank[170].

Few other institutions specialise in rural provision. Most regulated non-bank providers remain largely confined to urban areas. Banco Oportunidade and ProCredit do, however, operate mobile truck services in some rural areas. Furthermore, a few microbanks, credit cooperatives, microcredit operators and rural financial associations concentrate on more remote, isolated areas. Consultation with such providers suggests that key distribution challenges include the extensive cost of building and managing rural branches, as well as substantial difficulties in recruiting staff with the necessary skill level in rural areas[171].

Result: severe proximity barriers. The result of the trends highlighted above is that most Mozambican adults face significant proximity access barriers in accessing the formal financial sector (see **Box 12** below).

[170] Article: http://www.publico.pt/economia/noticia/portugueses-lideram-banca-mocambicana-num-mercado-em-ascensao-1639429#/0

[171] See the context section for an elaboration on the skills shortage and financial sector wage differentials in Mozambique.

Box 12: Proximity implications – the customer perspective

The FinScope survey provides insight into the travel distances faced by adults in reaching various points of interest, including banking outlets, market places and informal moneylenders.

Half of rural population does not access formal financial touch points. There is a stark contrast between adults who access formal financial touch points in rural versus urban areas, with between 49% and 54% of rural adults indicating that they never travel to a bank branch, other financial institution or ATM. On the other hand, between 76% and 81% of urban adults indicated that they travel to ATMs, other financial institutions or bank branches (see **Figure 51** below).

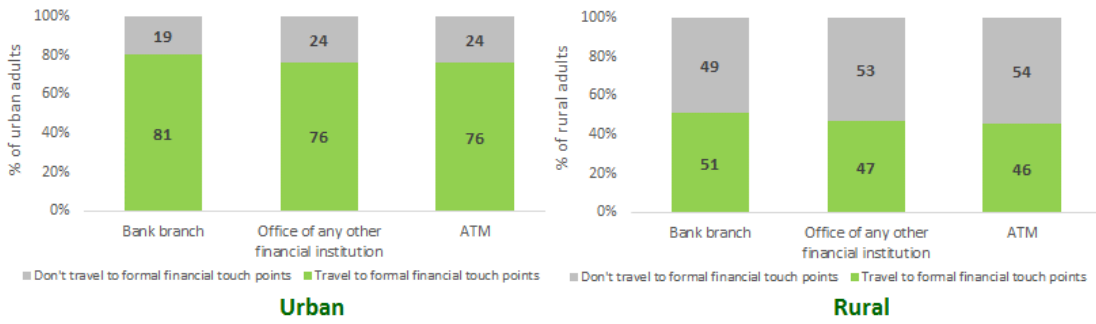


Figure 51: Proportion of urban and rural population traveling to formal financial touch points

Source: FinScope 2014

Proximity contrast between rural and urban access points. Those adults in rural areas who do access financial service touch points have to travel much further to the nearest access points than adults in urban areas. Sixty-three percent of rural adults travel more than an hour to reach their nearest ATM, bank branch or other financial institution, while only between 15% and 19% of the urban population travel more than an hour for the same (see **Figure 52** below).

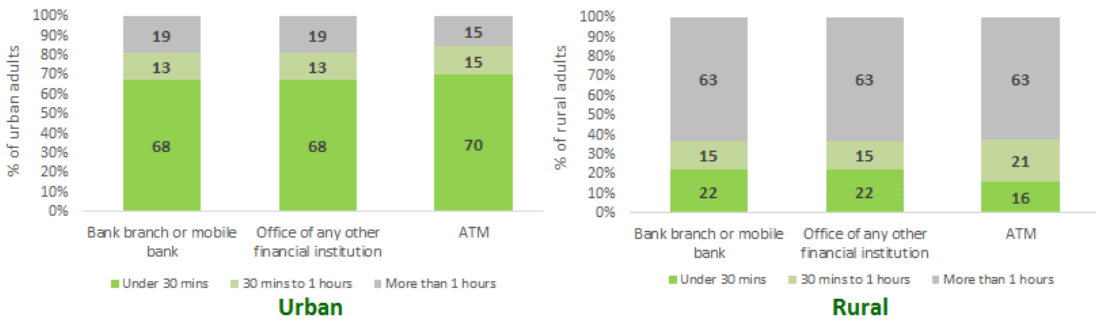


Figure 52: Proximity to formal financial access points

Source: FinScope 2014

Alternative and informal financial access points are closer to customers. Alternative distribution points like markets or informal financial access points like money lenders are situated closer to clients. Adults who travel to these access points are more likely to do so on foot or with public transport and they live far closer to these access points compared to adults who access formal financial service access points. **Figure 53** (below) shows that 84% of adults who travel to markets and 73% of adults who travel to money lenders do so in less than an hour (even in rural areas, 79% of adults travel less than an hour to the nearest market). However, while most adults actually travel to

markets (92%), only 37% of adults indicated that they travel to money lenders.

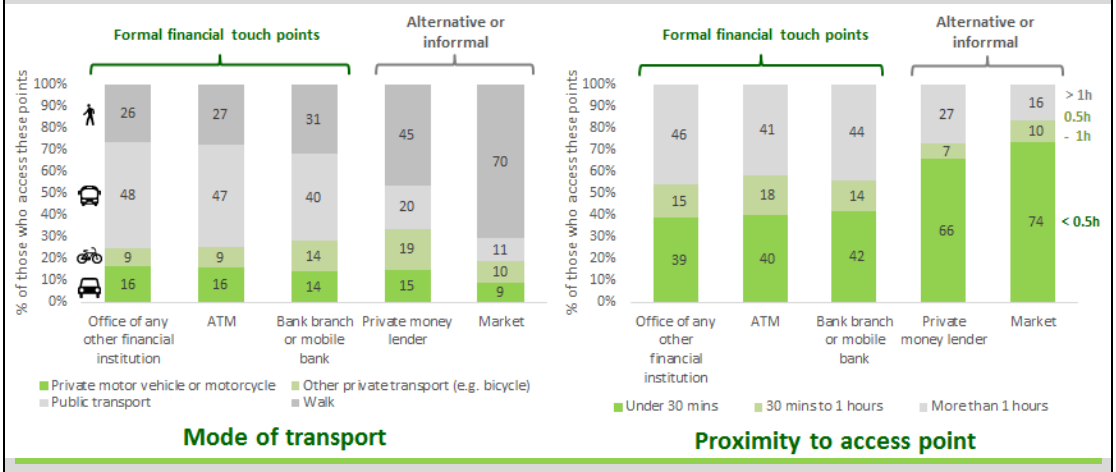


Figure 53: Proximity and mode of transport to access points

Source: FinScope 2014

Substantial provincial skews in physical accessibility. Lastly, it is also possible to consider the data through a provincial lens. When considering the percentage of those travelling to various infrastructure points that live within 30 minutes' travel distance of a bank branch, ATM and (informal) moneylender, respectively, it is clear that most users outside of Maputo Province and Maputo City (as well as Gaza, Manica and Tete where ATMs are concerned) face substantial proximity barriers:

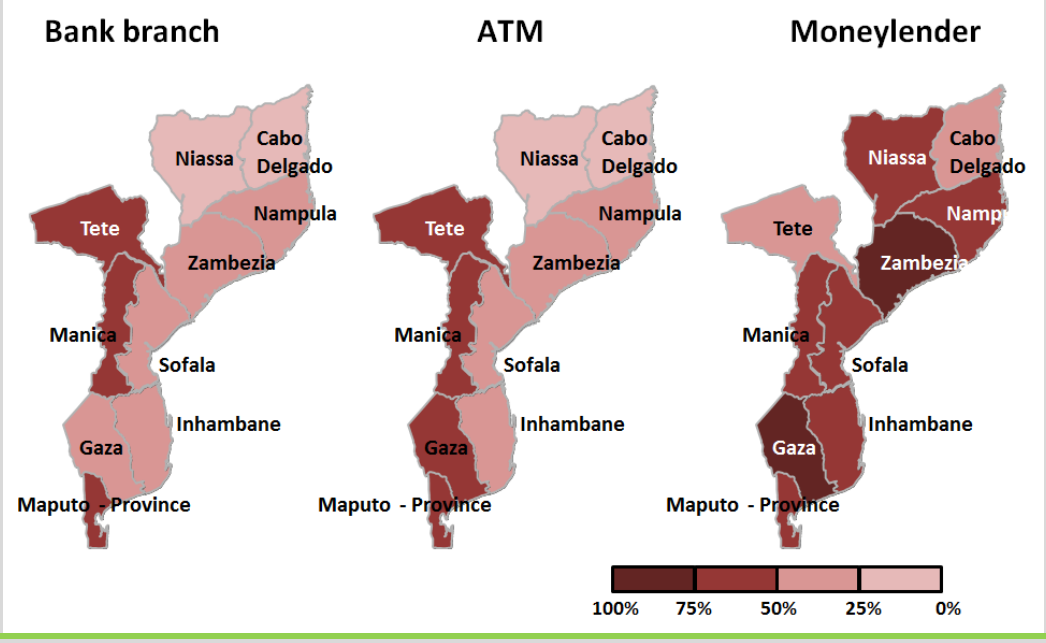


Figure 54: Percentage of those accessing services that live within 30 minutes' travel time from various outlets

Source: FinScope (2014)

Increasing emphasis on branchless banking. The geographical context and infrastructure challenges mean that traditional, branch-based expansion is ill-suited for rural banking and

financial inclusion at scale. Hence **branchless banking** has been identified as a financial infrastructure priority area by the Payments System department of the BdM.

The next sub-section considers the scope for alternative distribution in Mozambique.

5.2.2. Alternative distribution

Branchless banking is an umbrella term for a variety of non-branch instruments and channels that can be harnessed to extend the reach of financial services. **Alternative distribution** extends beyond branchless banking to also encompass non-bank financial services such as payments, microcredit and insurance. The core principle behind alternative distribution is the scope for financial services to "piggy-back" on a third party's current infrastructure/footprint, client or member base and, where possible, existing payments streams between such an organisation and its clients or members. Typically, alternative distribution entails using such existing channels and networks to market, originate and service financial services, either in partnership with the third party, or by using it as agent.

The rest of this sub-section considers the current use and potential scope for the following alternative channels:

Channel	Savings, Credit and Payments distribution	Insurance distribution
Retail	• No known products	• No known products
Informal Traders	• No known products	• No known products
Post Office	• Offers domestic remittances, known as *Vale Postal*[172] • Provides for payment of pensions[173]	• No known products
Mobile Networks	• mCell's mobile money service mKesh • Vodacom's mobile money service M-Pesa	• Products are being considered
Agro distributors	• Credit for smallholder farmers by agro firms via outgrower schemes[174] • The outgrower agro companies use Banco Oportunidade to make payments to farmers using its network of branches and mobile networks[175]	• Pilot insurance schemes for traders and associations[176] • Cotton weather index insurance scheme
Fuel stations	• No known products	• No known products
FMCG companies	• No known products	• No known products
Employers	• BCI prepaid cards to select corporates	• Broker-based distribution to corporate employee groups

Table 13: Known product distribution among alternative distribution channels

Source: various as indicated in footnotes

[172] Dias, D., Sanford, C., and Dermish, A. (2012) Country Report: Mozambique. Mapping the Retail Payment Services Landscape in Malawi, Mozambique, Zambia and Zimbabwe. Retrieved March 22, 2013, from www.finmark.org.za.
[173] Correios de Mocambique. (2013). Financial Services - Payment of pensions. Retrieved March 22, 2013, from www.correios.co.mz.
[174] Hunguana, H., Ribeiro, P., Mata, T., Dlamini, M., Mahlati, V., and Fitzpatrick, K. (2012).Status of Agricultural and Rural Finance in Mozambique. Retrieved March 22, 2013, from www.finmark.org.za.
[175] Ibid.
[176] Ibid.

Potential channels with the widest reach have limited outlet density. Research conducted throughout the SADC region in 2013 renders the following indication of the relative size and reach of various potential alternative channels:

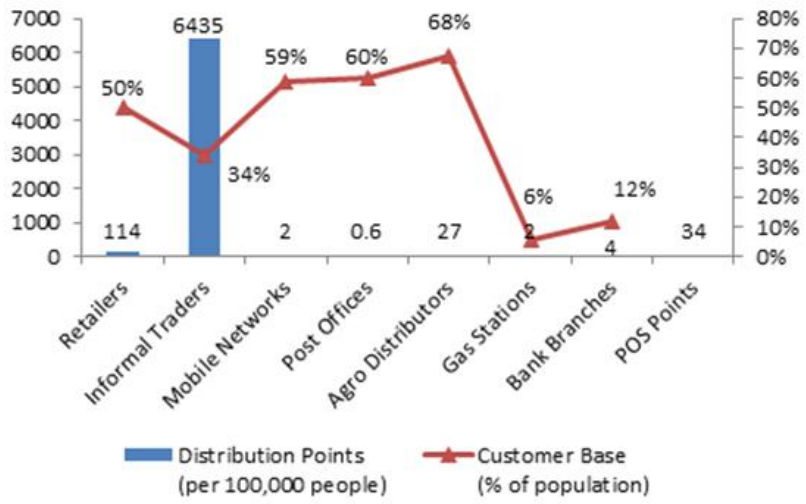


Figure 55: Distribution points and customer base for various potential alternative distribution channels in Mozambique

Source: Redflank (2013)

Independent retailer network already used as mobile money agents. Independent retailers, which are often family businesses, predominate in Mozambique, with many of the large retailers' origins being among Indian and Portuguese descended families. Many of these retailers grow to be quite large at a provincial level. Many independent retailers are already agents or are being earmarked as future agents for mobile money services.

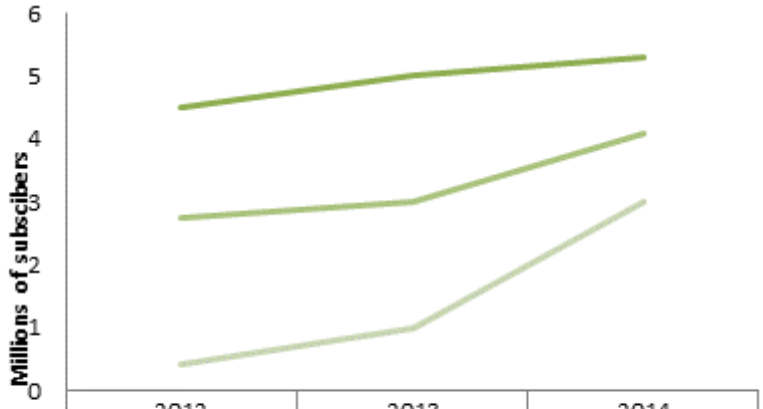
Chain stores have distribution scope, but no partnerships signed yet. International retailer chains have in recent years set up stores within major urban areas such as Maputo, Matola, Nampula, Beira, Nacala and Tête. In particular, South African retailers such as Game, Shoprite, Pick n Pay and SPAR have embarked on store expansion initiatives. However, retailers are at present still concentrated around urban areas and along strategic corridors. Sophisticated financial services operating out of retail chains, as seen in neighbouring South Africa, are yet to be established in Mozambique. This channel will become more attractive as networking of independent stores evolves and if international retail chains expand further.

Post office faces capacity and infrastructure constraints. *Correios de Moçambique*, the national postal service, has a footprint larger than any bank or retailer. The post office has 110 branches throughout Mozambique, however due largely to destruction during the civil war only 80 of those branches are functional. Funding constaints have prevented the postal service from rebuilding some of this damaged infrastructure. In addition, some rural post offices can be difficult to access due to poor road infrastructure, and in some areas floods render roads temporarily unusable. Consequently, mail delivery can be delayed. Putting further strain on the postal system, low revenue means many branches are operated by a single employee. Despite these contraints, some financical services are provided through *Correios de Moçambique*. While it is possible to use the postal services to send or receive remittances, the number of adults who do so is very low (approximately 16 000 send and 27 000 receive). Other

financial services offered via the post office include payment of pensions[177], bill payments and voucher sales, including airtime. *Correios de Moçambique* has predominantly paper-based systems and limited connectivity. For example, only around 20 to 25 branches across three provinces have internet access, and cash must be physically transported, often using security vehicles, to and from branches. Because of all these factors, despite its considerable branch footprint the postal service is not currently in a position to offer financial services at scale or beyond physical cash logistics.

MNOs most promising alternative channel. There are three active MNOs in Mozambique's growing market: mCel (since 1997), Vodacom (since 2003) and Movitel (since 2012). mCel is fully government-owned and is the largest MNO with 5.3m subscribers (over 50% of the market), while Vodacom has 4.1m clients. From 2013 to 2014, the new entrant, Movitel, tripled its consumer base from 1 to 3 million. Movitel has explicitly pursued a rural-focused strategy, starting with an investment of 12 500km of fibre optic cable ahead of its launch in 2012, with a further investment to bring the total to 20 000km of cable, covering all of the districts in the country. More than 80% of the population was within reach of Movitel signal as at May 2014[178].

Figure 56 shows the growth in the number of MNO clients over the past three years. As a percentage of the total adult population, however, mobile penetration remains fairly limited, with only 51% of those residing in urban areas indicating that they have access to a mobile phone, reducing slightly to 49% for those in rural areas (FinScope, 2014).



	2012	2013	2014
Mcel	4 500 000	5 000 000	5 300 000
Vodacom	2 734 000	3 000 000	4 100 000
Movitel	415 000	1 000 000	3 000 000

Figure 56: MNO subscribers in Mozambique, 2012 to 2014

Source: Industry consultation

Two mobile money providers. The reach and agent network of the MNOs bestows these companies with strong potential for alternative distribution in Mozambique. By law (see **Section 3: Regulatory and Policy Environment**), mobile money providers must be independent financial service companies (defined as e-money issuers), meaning that mobile network operators cannot directly provide mobile money, but can own an e-money issuer as

[177] Correios de Mocambique. (2013). About Us. Retrieved March 25, 2013, from www.correios.co.mz.
[178] ICT Africa News, 2013;

subsidiary. At present, there are two such mobile money providers, as indicated in Table 14 below.

Holding company	Carteira Movel	Vodafone	Viettel Group & Mozambique SPI company
Subsidiary: Mobile network operator	Mcel	Vodacom	Movitel
Subsidiary: Mobile money operator	mKesh	M-Pesa	Mobile money launch pending

Table 14: Overview of mobile network and mobile money providers

Source: Industry consultation

mKesh was the first to enter the market in 2011, while Vodacom launched its M-Pesa mobile money service in May 2013[179]. mKesh distributes its products though branches and agents: at the end of 2013, it had over 30 branches and 20 000 agents serving 185 000 clients throughout the country. Most agents are in the Maputo, Sofala and Nampula provinces. Vodacom, in turn, had between May and December 2013 built up a network of an estimated 1 500 agents. Movitel is imminently expected to launch a mobile money services subsidiary. According to the BdM, there are 880 000 mobile money subscribers (BdM, 2014). However, Finscope 2014 found the number of users to be 360 000. **Section 6.1 Market for payments** provides further discussion about trends in mobile money and addresses possible reasons for the varying take-up numbers.

Fuel stations not yet explored as potential channel. There are 293 fuel stations in Mozambique. The major players are BP, Mobil Oil, Petromoc, Sasol, TOTAL, Engen and Galp Energia. Fuel stations, particularly in urban areas, sometimes have convenience stores attached to them. Franchise opportunities exist, especially for established companies such as BP.[180] In rural areas, fuel stations are often extremely basic and are poorly networked.[181] Consultations indicate that, currently, most fuel stations do not offer POS functionality and payments to fuel companies are made overwhelmingly in cash, with fuel trucks transporting significant amounts of cash across the country. This presents an important opportunity for electronic payments. For example, according to the consultations, Petromoc is the second largest company in Mozambique by revenue, with 119 filling stations in 2013. It has a partnership with BCI for POS devices and via its majority public shareholding (Petromoc is Government-owned) is under pressure to expand reach into rural areas. Yet at the time of the in-country research, only 21 filling stations were equipped with POS devices across 7 provinces. Most of the Petromoc filling stations with POS devices are located in Maputo City and Maputo Province, while some provinces have only one filling station with a POS device. **Section 6.1. Market for payments** provides further discussion on the prevelance of cash and cheques even for large transactions, including the current operations of Petromoc.

Viable agri-sector distribution limited to a handful of specific opportunities. The agriculture sector supports the livelihood of up to 80% of adults in Mozambique (FinScope, 2014). Yet, as the discussion in **Section 2: Context drivers of market development** has shown, the sector is not well-networked and processing capacity is not well developed. In most areas, farmers must travel 30 to 40km to buy agro-inputs and market their crops.[182] Agri-distributors in

[179] Fauvet, P. (2013). Mozambique: Vodacom launches its M-Pesa product in Mozambique. Retrieved August 6, 2013, from http://allafrica.com/stories/201305200518.html.
[180] Red Flank, 2013
[181] Field observations during MAP qualitative field work, July 2013
[182] Consultation with Agriserve, an agro-dealer in Cuamba, Niassa during MAP qualitative field work, July 2013

Mozambique are located primarily in major market towns or main district centres, making it difficult for smallholder farmers to access fertilisers and improved seed technology.

Nonetheless, some agri-distributors or *'empresas de fomento'* provide credit via outgrower schemes for cash crops to smallholder farmers. Outgrower firms typically provide smallholder farmers with inputs such as fertiliser and seeds at the beginning of the planting season, agreeing upfront on the price that the company will pay for the harvest at the end of the season. Once harvest time comes, the company pays the established price for the harvest minus the cost of the distributed inputs[183]. As outlined in **Section 2: Context drivers of market development** outgrower companies include Mozambique Leaf Tobacco (MLT), Plexus, OLAM, SANAM, China Africa Cotton, JFS/SAN and S.A.M[184].

Seed suppliers are also a potential distribution channel due to the critical role they play in the value chain. For example, one of the country's premier seed producers and distributors, AgDevCo, provides seeds to more than 120 000 farmers[185]. AgDevCo is already a distribution partner for an agricultural weather index insurance scheme aimed at smallholder cotton farmers in the North of the country (see **Section 6.4: Market for insurance** for more details).

Lastly, Vodacom M-Pesa has a partnership with TechnoServe, a business solutions NGO that focusses on building agricultural value chains in the country. Consultations with TechnoServe suggest that value chains, such as those dedicated to forestry and tropical fruits, could benefit from partnerships with the financial sector to develop solutions that benefit farmers, but at the time of writing no such partnerships were on the cards yet.

Limited scope among informal vendors. The informal sector is the main source of income for many Mozambicans, but informal businesses are mostly survivalist in nature. The *Associação dos Operadores e Trabalhadores do Sector Informal* (Association of Informal Sector Operators and Workers, ASSOTSI) is the main body representing informal traders in Mozambique[186]. These businesses are poorly networked but often sell airtime for mobile operators in addition to their core stock.

Fast moving consumer goods (FMCG) operators offer in-principle scope, but no concrete plans yet. Consultation with Vodacom M-Pesa suggests that they have been in initial discussions with FMGC companies such as Coca Cola and Unilever. These companies run large distribution networks that may deliver a cash handling backbone to support a sustainable mobile money solution. Furthermore, they have payments relationships with a multiple of small retailers and traders presenting scope for introducing electronic payments in the supply chain. At the time of writing, such strategies had not been actively pursued.

Corporate employers a viable option, but reach only a small part of the population. Large corporates are often interested in offering their employees financial service solutions as benefits. BCI has been introducing prepaid cards for salaries to be loaded onto by key corporate clients.[187] The scale and challenges to this venture are discussed in **Section 6.1: Market for payments** Consultations also indicated that some insurance brokers are pursuing

[183] Hunguana, H., Ribeiro, P., Mata, T., Dlamini, M., Mahlati, V., and Fitzpatrick, K. (2012).Status of Agricultural and Rural Finance in Mozambique. Retrieved March 22, 2013, from www.finmark.org.za.
[184] Ibid.
[185] *Raja, B. et al (2012). Cenfri: Access to insurance in Mozambique. Unpublished document.*
[186] Byiers, B. (2009). Informality in Mozambique: Characteristics, Performance and Policy Issues. Retrieved March 22, 2013, from www.tipmoz.com.
[187] Consultation with BCI on XXX, 2014 (ZANI TO INPUT)

partnerships with large corporates to reach their employee base. Lastly, the Brazilian mining firm Vale has indicated an interest in providing financial services extensions to its employees, as well as its project partners such as the *Corredor do Desenvolvimento do Norte* (CDN). This public-private partnership is developing the railway in a strategic economic corridor between Tete and Nacala, and is a pivotal regional employer. While such specific instances hold promise, target market analysis showed that the formally employed make up less than 10% of adults.

6. Product Markets

6.1. Market for payments

Why focus on payments? Regardless of whether a person engages primarily in a formal or informal economy, transactions are the basis for economic activity. Well-functioning payments systems optimise the efficiencies of transactions that move goods and services at all levels of an economy. At its core, payments systems facilitate the transfer of value between individuals, businesses, and in some instances governments.

For low-income individuals primarily engaged in informal economies and transactions, payments systems are often their first point of contact with any formal financial system or service. Payments systems can reduce transaction and opportunity costs, and enable greatly enhanced access to additional financial services which, in turn, can directly improve the welfare of low-income individuals and households.

This section unpacks the key drivers for the market for payments, including discussion of products and providers available to low-income customers. The institutional landscape for the Mozambican payments system is described in **Section 5.1**. Gaps and opportunities for improvement are also identified at the close of this section.

Key issues: market for payments

- Multiple payment systems with very limited interoperability of payments system
- Limited payments infrastructure
- Low reach and use of payment channels particularly POS and ATMs
- To the extent that payments systems are used, that use is primarily to facilitate a cash economy (accessing or moving cash), rather than replacing cash transactions
- Strong preference for cash by all target markets
- Use of cheques ubiquitous in formal economy
- Effective payment channels become a gateway for the development of formal financial services industries
- Limited use and availability of payment channels directly inhibits the current use and development of formal financial services and becomes a barrier to the expansion of basic banking services to viable economic segments

6.1.1. Payments take-up

The product market with the highest take-up. Take-up of payments can be gauged in two ways in FinScope survey data: by considering the transaction strand (the number and percentage of adults who *have* any type of account/service with payments functionality) as well as the remittances strand: those *using* various instruments particularly with the purpose of sending or receiving money. **Figure 57** shows the penetration across these two strands for all Mozambican adults compared to the total access strand:

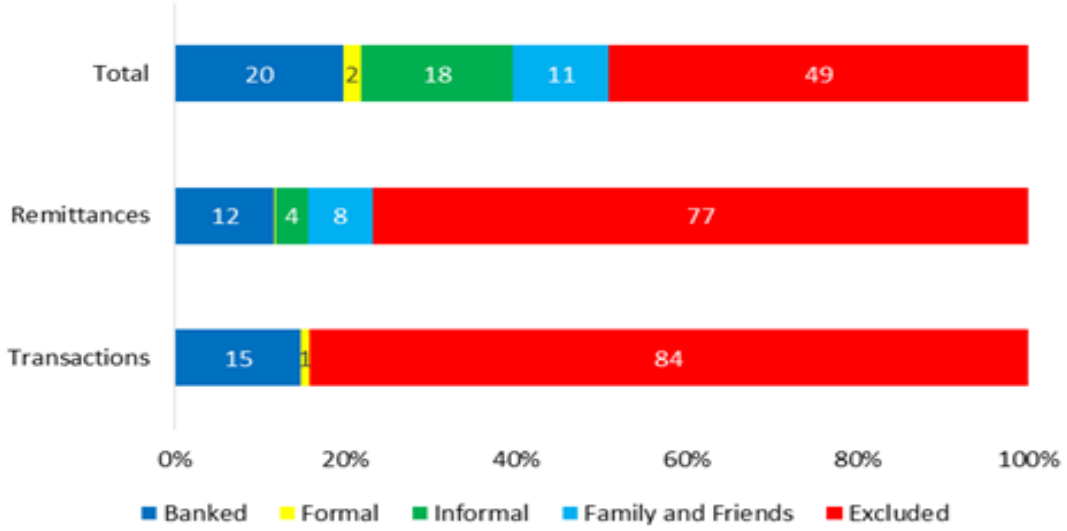


Figure 57: Access strands for remittances and transactions, compared to total access strand

Source: FinScope (2014)

Even though absolute exclusion remains high, the market for payments is the most "included" compared to the other product markets (see the discussion in **Section 4: Target market analysis**) and therefore transactions and remittances account for most of the total formal

usage in Mozambique.

Remittance uptake closely aligned to transaction banking. Mozambican banks generally do not offer *ad hoc/*non-account services and there is no material uptake of alternative formal remittance service providers, which are often located within banks. Hence most formal remittance activity is conducted via bank accounts.

Formal transaction and remittance usage concentrated among the more affluent groups. As can be expected, government and salaried workers have significantly higher take-up of transaction products than the other target market segments, followed by microentrepreneurs:

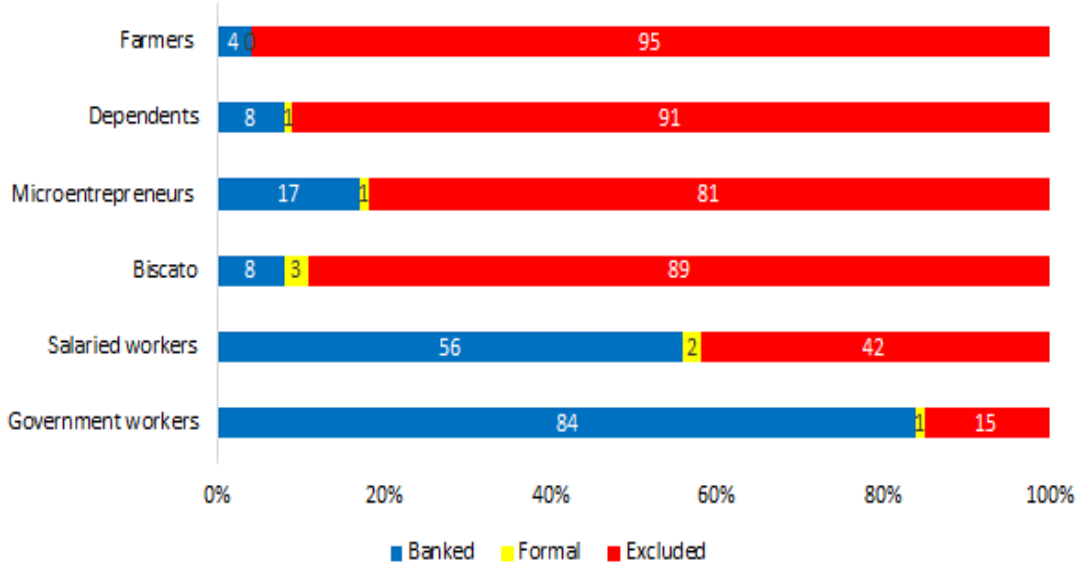


Figure 58: Transaction strand

Source: FinScope (2014)

When considering remittance patterns across the segments, formal sector employees are once again best-served by formal services, followed by microentrepreneurs:

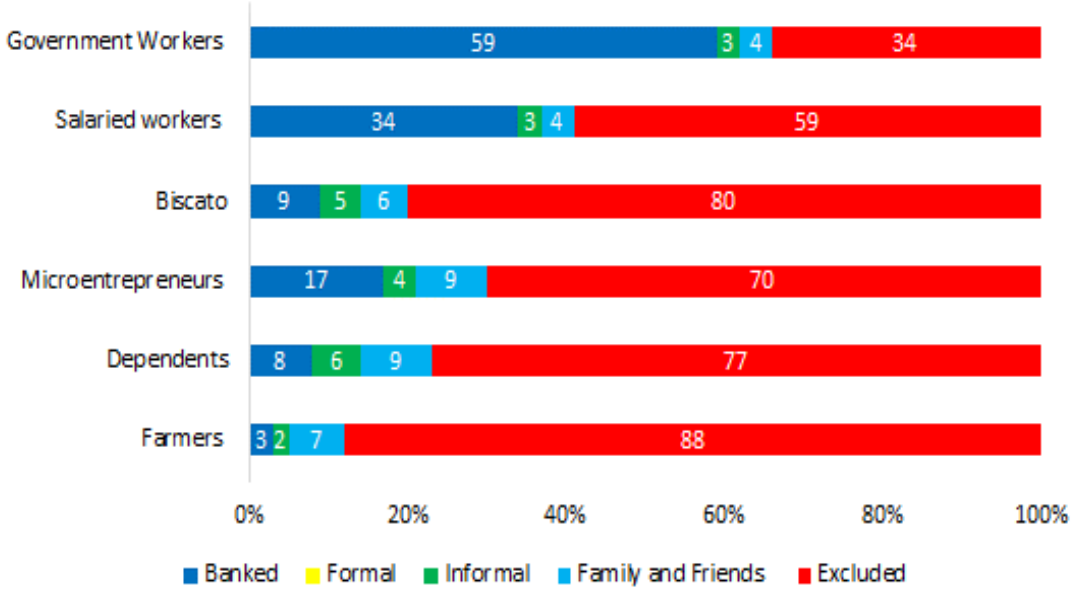


Figure 59: Remittance strand

Source: FinScope (2014)

The most significant conclusion from the figures above may lie in the red components, rather than the blue. That is: the fact that the bulk of adults transact entirely outside of the financial system.

Cash dominates as medium of exchange. The analysis above showed that the majority of Mozambican adults are financially excluded in respect of remittances and other transactions. The implication is that most people (66% of FinScope 2014 respondents) transact solely in cash. This also holds true when considering how people receive their main income source: only eight percent of FinScope (2014) respondents reported receiving main income payments through formal payments options (banks). The dominant income payment instrument is physical cash, which was reported by two-thirds of respondents. A further 26% report receiving their main income in goods or a combination of goods and some cash, indicating a significant role for the non-monetised economy.

Figure **60** shows the volume of use of different payment instruments for primary income by the different target markets. It is clear that only government and salaried workers make substantial use of electronic payments. Dependents (a substantial group at more than 4m adults), represent the main non-monetised income skew. For the rest, cash predominates. Note that farmers may not regard own produce as “main income source”, hence the non-monetised income component may be understated in FinScope for this segment:

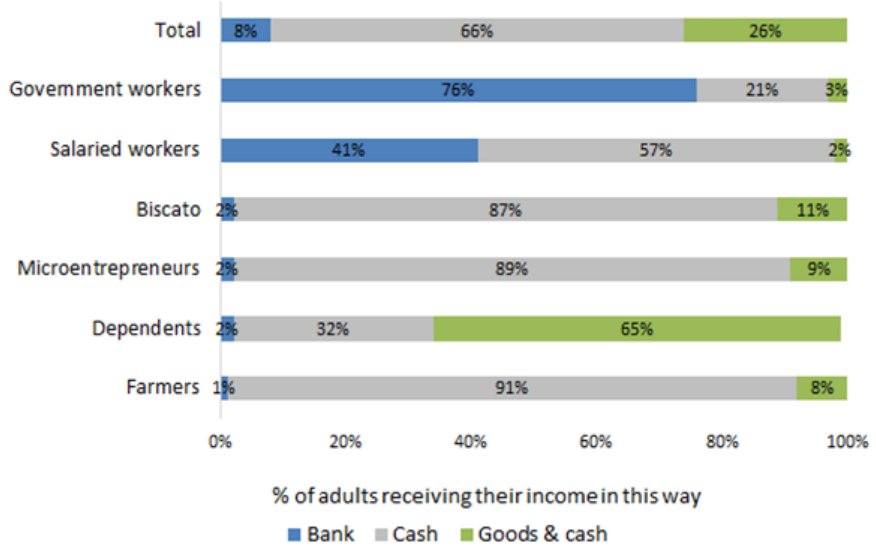


Figure 60: Payment instrument type for receiving main income

Source: FinScope (2014)

After the farmers (91%), microentrepreneurs and *Biscato* are the most dependant on cash transactions, with 89% and 87% of transactions respectively. Non-government salaried workers also rely significantly on cash transactions (57%), despite the fact that this group also has a reasonable take-up of bank accounts (41%) as compared to other target markets.

Twenty-six percent of adults in pre-monetization stage. FinScope 2014 indicates that 26% of respondents[188] receive their main income in a combination of small cash payments, goods and/or trade. This essentially non-monetised economy is also evident in qualitative fieldwork responses (see the discussion in **Section 4: Target market analysis**). The significance of non-monetised trade or incomes is that it indicates that in parts of the economy, physical cash or other instruments are currently not effectively employed or do not meet local community needs. As will be revisited in **Section 6.2: Market for credit** some lending is also conducted in-kind, rather than in monetary terms.

Large business transactions also still in cash. Reliance on cash is also entrenched in business behaviour. This is demonstrated by the case of Petromoc (as discussed in **Section 5.2: Distribution**). Some of its fuel stations have electronic payment capabilities, but agents mostly still pay for wholesale fuel in cash. Cash is the predominant means of transacting in the broader economy, and therefore it follows that consumer driven payments tend to gravitate to the common transaction medium, which in turn requires businesses to deal with large amounts of cash. This means that Petromoc's filling stations, some of which are independently owned franchises, tend to have cash on-hand for payment of petrol deliveries, and are not in a position to make real-time or verifiable electronic funds transfers. Further, due to connectivity issues, slow interbank transfers, and poor interoperability in the payments system, Petromoc tends to prefer payment in cash and in limited instances cheques, as truck drivers can verify payment immediately and then either deposit collections into Petromoc's bank account at the nearest BCI branch, or return with the payments to one of Petromoc's

[188] 18% of respondents (representing +- 2.2 million people) indicated that they rely on their households exclusively to take care of their needs. They did not register any other type of income. Given the heavy involvement of the dependent target market in agriculture, many of these individuals are thus economically active but this activity will not be reflected in monetary terms.

depots. Cash payments also better accommodate the ability for petrol sales to be made on the spot, as truck drivers make sales based on the petrol physically available in the truck or the float levels of the holding tanks. This reduces the logistical burdens of monitoring how much petrol is available for delivery and matching this with payments made in advance. Such business practices have evolved because of the dominance of physical cash or cheque transactions throughout the economy coupled with the non-availability of real time, verifiable wholesale payment modalities, accessible and reliable enough to reduce payment risk at the point of delivery. A change in behaviour, therefore, will require that consumers, businesses, parastatals, banks and governments evolve in tandem. The fact that Petromoc has not found a way of leveraging the ATM infrastructure to take cash out of the system or to make payments for fuel deliveries electronically is also indicative of more systemic constraints as discussed in **Section 3: Regulatory and Policy Environment** as well as in **sub-section 6.1.5** below.

Cheques ubiquitous – and growing – in formal economy. In a seeming parallel tendency to the heavy use of cash, the use of cheques is also ubiquitous, though concentrated in the formal economy. Cheques have not met widespread substitution by RTGS, EFT, POS or mobile non-card based systems, as has been observed in neighbouring countries where cheques generally need to be pre-approved or be from trusted clients. While there is some evidence of transactions migrating away from the cheque stream to the RTGS, EFT or POS streams (2.5% of cheque transaction volumes migrated to electronic payment streams in 2012, compared to a migration of 1% of cheque transaction volumes in 2013[189]), in absolute terms the cheque payment stream showed a 33% increase in volumes and a 40% increase in the value of cheques cleared. Thus the substitution trend is currently marginal. Without specific intervention, an organic move away from the use of physical cheque instruments is likely to take decades[190].

Bank accounts used primarily for encashment purposes. Even those individuals that do have bank accounts primarily use those accounts only as a "mailbox", meaning the account is simply a means to facilitate access to cash; the BdM reports that 93% of ATM transactions were encashment transactions[191]. This makes sense given the fact that the majority of adults live their financial lives in cash; those who receive their income electronically therefore need to encash it in order to transact with others. A more in-depth overview of the uptake and infrastructure for payments instruments (including cards, electronic funds transfers and mobile money) is provided in Product discussion in **sub-section 6.1.4** below.

High informal remittance usage. It is notable that informal remittance channels play a small but significant role across all target markets, as do sending and receiving money via family and friends. Together, these two methods are more prominent than formal services for all but the upper three target market segments. Where international remittances are concerned, the most recent available research (Truen & Chizadsa, 2012) estimates South Africa to host close

[189] Calculation from BdM Annual Report 2012 and 2013, respectively

[190] The BdM maintains a registry where individuals are listed when their cheques fail to clear. Unlike in other jurisdictions where dishonouring a cheque is all too common, in Mozambique physical instruments are taken very seriously and are dealt with quite strictly. Being listed on the bad cheques registry is widely considered to be a major setback for an individual. Cheques are so core to the Mozambican financial system that streamlined legal civil procedures are designed around cheques and promissory notes where a blank cheque is required as a form of collateral and is presented into the clearing system should a debtor fail to pay.

[191] BdM Annual Report 2013. An example is the BCI government salary accounts, where the bank reports complete withdrawal of salary payments soon after deposit with transactional payments done in cash. With end-of-month cash withdrawals a pervasive phenomenon, bank branches are notoriously crowded, especially in urban centres. High volume cash paydays also come with administrative burdens as well as a requirement to hold excessive vault cash as a prudent contingency. The consultations revealed that some banks, such as Millennium Bim and Barclays, have increased ATM functionality and curbed in-branch withdrawals in an attempt to curtail the monthly surge of customers in the branch. Long queues persist at most branches.

to 500 000 Mozambican migrant workers, of which more than half are undocumented. The total estimated value of remittances (highest estimate) was ZAR 1 781.8m, which equated to 1.43% of Mozambican GDP. This represented the third largest remittance channel from South Africa by value, behind Zimbabwe and Lesotho[192]. Qualitative insights suggest that most remittances from across the South African border are likely to be informal, plus that a significant portion are in-kind rather than monetary, and hence may be underreported in FinScope. The box below unpacks remittance behaviour among Mozambicans in more detail.

[192] FinMark Trust, 2012. http://cenfri.org/documents/Remittances/2012/The%20South%20Africa-SADC%20remittance%20channel_Report.pdf

Box 13: A closer look at remittance behaviour

Domestic remittances most prominent. **Figure 61** below shows that slightly more people receive than send remittances and that most remittance transactions are domestic rather than international. In total, approximately 1.7m people (up from 813 049 in 2009) send remittances within Mozambique, while 1.9m (compared to 966 868 in 2009) report receiving remittances from within Mozambique.

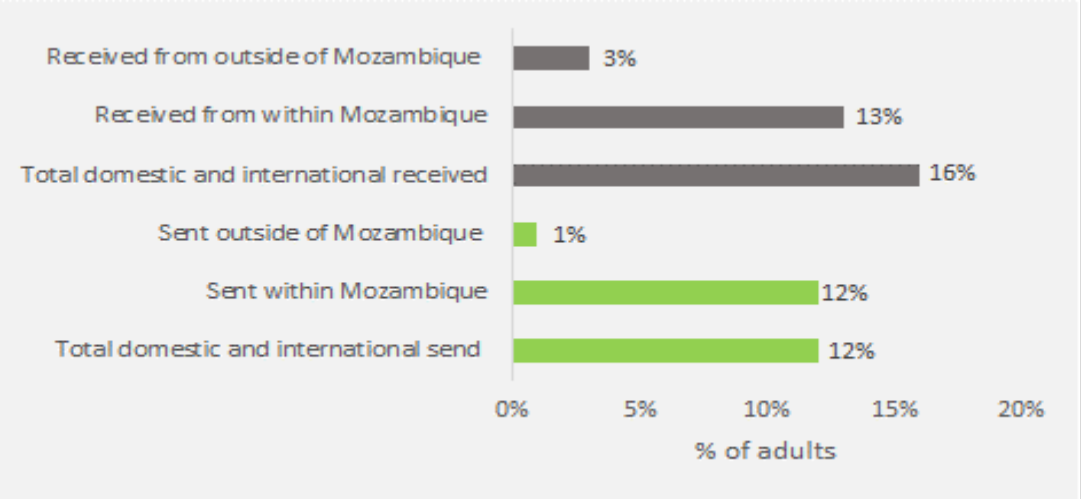


Figure 61: Breakdown of remittances by sending and receiving

Source: FinScope (2014)

Formally employed net senders, but also likely to receive. **Figure 62** below indicates how sending and receiving (domestic as well as international) varies across target market segments, compared to the size for each group (indicated on the secondary axis). Most sending and receiving behaviour is concentrated among the salaried and government workers – the smallest two segments – followed by microentrepreneurs. These are also the only three groups that have more senders than receivers. Notable is the limited remittance receiving behaviour among dependents, which confirms (as discussed in **Section 4: Target market analysis)** that most dependents are supported by others in the same household, rather than receiving funds over a distance:

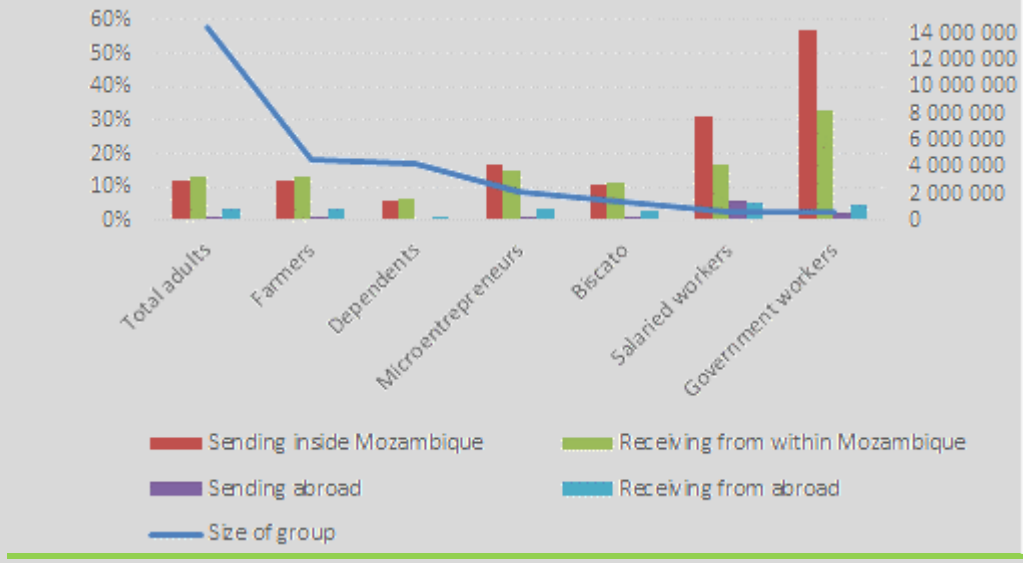


Figure 62: Remittance behaviour across target market segments

Source: FinScope (2014)

Bank, family and friends most popular channels. Of those who send remittances, most do so irregularly, though about a quarter do send monthly. Almost two-thirds send through a bank, followed by one third sending cash with a friend or relative:

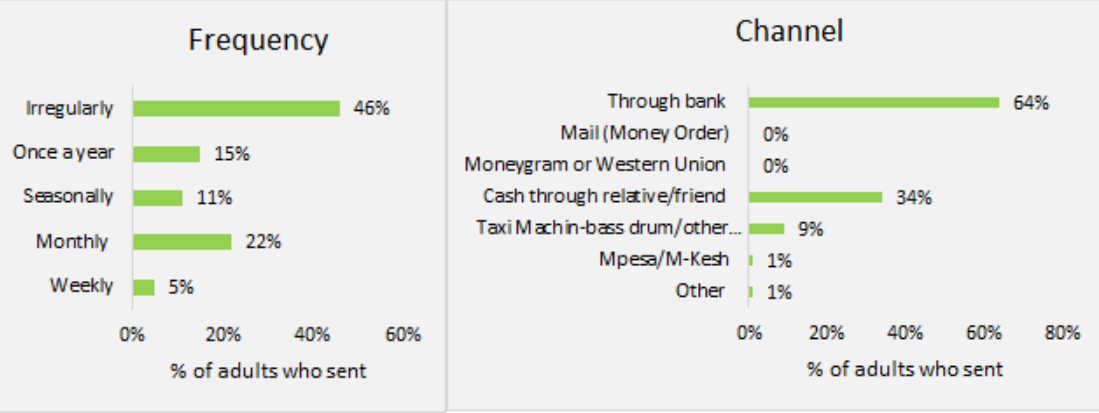


Figure 63: Remittance sending behaviour[193]

Source: FInScope (2014)

A similar pattern holds for those who receive remittances. Most receive it irregularly and they tend to receive it either via a bank, family and friends or an informal taxi driver:

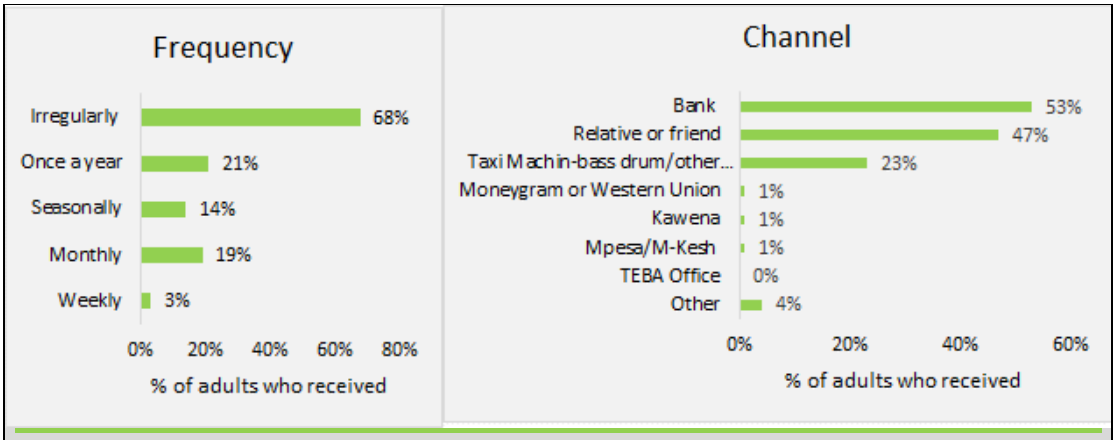


Figure 64: Remittance receiving behaviour

Source: FinScope (2014)

Banks preferred, but not always accessible. Banks are the channel with the most responses in FinScope (2014) when people were asked which channels are the fastest, less risky and easiest to use. Family and friends receive the most responses for least expensive, followed by banks. In contrast, sending money with a taxi or vehicle for a fee is singled as being risky, expensive and hard to use. Sending money via family and friends is also considered by many to be risky and slow. Thus, the fact that taxis and family and friends are used to a significant degree could indicate access or usage barriers to banking

6.1.2. Use cases for payments in Mozambique

This sub-section identifies the main purposes for which Mozambicans use payments products and services available to them. These use cases, while not exhaustive, demonstrate current and potential demand as gauged through the in-country consultations and the quantitative and qualitative demand-side research. They can be used to evaluate how well suited the current payments landscape is to meet the needs of the target markets. Later, these will be revisited to identify gaps in current provision and opportunities for growth. The payment grid, in **Table 15** below, shows the spectrum of retail payment flows. The most prominent use cases found in Mozambique are indicated in dark green, followed by light green, grey and white in order of importance:

PAYER

PAYEE		Government	Business	Person	NGO
	Government	**G2G:** disbursements to/from: Gov. Depts. municipalities parastatals	**B2G:** taxes	**P2G:** utility payments, taxes	

[193] Note: this was a multiple response question, therefore percentages will add up to more than 100%.

	sovereign funds			
Business	**G2B:** tenders, payments for goods & services.	**B2B:** bill payments for goods & services.	**P2B:** Airtime (all 3 MNOs); bill payments , POS, direct debits	**NGO2B: procurement, grants, endowments**
Person	**G2P:** social grants; wages/ salaries; district loans.	**B2P:** payment of wages/ salaries	**P2P:** local & international remittances, MSME payments, wages	**NGO2P: grants, loan disbursements, wages/salaries**

Table 15: Payment grid-categories of payments in Mozambique

Source: Author's own

Remittances (P2P). While remittances are not the only P2P use case, it is an important component of the P2P market. FinScope (2014) provides an indication of the main reasons why people send and receive remittances, respectively. As illustrated in the figure below, food and general household expended, followed by education and then health expenses are the most prominent reasons for sending and receiving remittances in Mozambique:

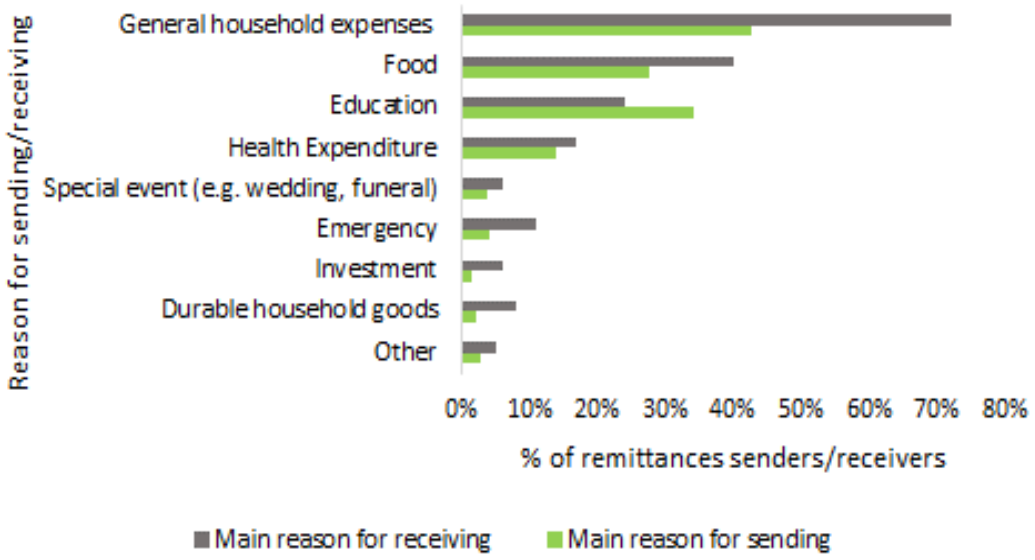


Figure 65: Remittances use cases

Source: FinScope (2014)

Bill payments (P2B, P2G). Bill payments[194] are the payment by a person or a business to

[194] "Bill payment" refers to the settlement of documentary accounts once presented for acceptance. This distinction has become muddled with technology, but there is benefit in maintaining the difference in definitions between bill payments and other payment types as it has implications as to the timing and reciprocity of performance, for instance settling a utility account versus a point of sale purchase transaction settled at the cashier. In the past the distinction was that stores used to sell on credit and at the month end there was an account of what had been supplied and a bill was presented to the client for acceptance and then

another person or business in return for goods or services. This includes, for example, payments for water, electricity, airtime, loan repayments, insurance premiums, school fees, groceries on account, clothing accounts and appliance accounts. Bill payments are relevant for all the target markets as most individuals have to pay bills of some form.

Salary payments (G2P, B2P). Salary payments constitute the payment of individual employees by their employer, either a business or the government. As salary payments constitute a bulk payment disbursal, it is important that employers are able to use efficient and cost-effective channels to conduct these payments. From the individual receiver's perspective it is imperative that they receive salaries on a consistent, timely and reliable basis. Government salaried and other salaried are the target markets primarily affected by salary payments. As the salaries of many of the formally employed are paid into bank accounts, this can act as a driver for individuals to open bank accounts simply to receive their monthly salary and might not be a sufficient driver in the cash-based Mozambican society to further utilise these accounts as a transaction mechanism, particularly where the cost of encashment to the consumer is negated by regulation.

Finscope (2014) indicates that 76% of government workers are paid electronically, whereas 41% of other salaried workers are paid this way. While this requires employees to have a bank account, some salary payments are now made via pre-paid card mechanisms forming part of the corporate's account, which does not require that an individual have their own separate account (see the product discussion in **sub-section 6.1.4**).

Social transfer and government programs (G2P). These types of payments occur when the government provides payments to individuals, such as through INSS social grants, or district loans. Some INSS grants and similar payments are processed in bulk to bank accounts, as is done with salary payments. However, a lot of these payments are also made via cheque or cash. The district loans are distributed to the individual District Development Fund accounts in commercial banks on a bulk basis, but loans to individuals and businesses are mostly by way of cheque and cash, although there is no prohibition with regard to bank transfers. The majority of recipients who qualify for district loans are currently excluded from bank-based finance. Consequently, these payments are made on an individual basis, and the majority are not made electronically. The district loans are discussed in more detail in **Section 6.2: Market for credit.**

NGO small grants and loan disbursements (NGO2P). NGOs typically incur high administrative and transaction costs in order to disburse low value grants, loans and other micro payments to recipients in an accountable manner. Although currently done by way of cash payments, mobile money and pre-paid debit cards have emerged as attractive alternative payment options to cash disbursements. These alternative payment channels could potentially also offer donor organisations a level of governance and oversight that better accommodates risk mitigation requirements. There are some anecdotal reports of NGOs venturing into mobile payment channels with various outcomes and one Mobile Money institution reports the development of duel or multi-party control accounts similar to corporate cheque facilities. In

factored at a bank. Bill payment happened when the client's bankers purchased the bill out of the proceeds from the client's account. A key element of a bill payment transaction is that it is discounted to the intermediary and presented in full to the client. Cash or point of sale transactions were usually for a small sum or to an un-trusted client, settled on the spot. The contemporary distinction would better define the immediacy of the transaction and the handover of possession or control of goods and therefore whether the transaction is ad hoc, on the spot for possession of goods versus the settlement of documented accounts of future or past services or in respect of delivery of goods.

areas where the broader electronic payment ecosystem is not significantly developed, NGO bulk payments can place a burden on small scale local encashment agents and has the potential to form negative perceptions about electronic payment modalities within communities.

Corporate transactions (B2B). These payments consist of higher value payments between regulated or better established businesses. These are often made via bank transfer and may also cross borders. In addition, a high volume of informal B2B transactions are conducted by individuals within the informal trade value chain, sometimes crossing national borders. Currently much of the monetised corporate B2B transactions within Mozambique are done through cheques, but with a small but steadily increasing proportion of higher value transactions being processed through the MTR (RTGS) system.

SME transactions (B2B). These transactions are predominantly done in cash and some by means of cheque. Typically, bulk supply transactions such as petrol station fuel drops and bulk beverage supply transactions are conducted in cash, necessitating small to medium traders holding significant amounts of cash. Almost all micro-enterprise transactions are conducted in cash and some in kind.

Tax payments (B2G, P2G). Tax payments would largely affect higher income earners that are required to pay income tax, along with the self-employed operating in the formal economy, who are required to pay VAT on goods and services sold. Efficient, simple payments mechanisms can provide a significant contribution to effective tax collection.

6.1.3. Providers

Provision concentrated in urban centres. S**ection 5.2: Distribution** provided an overview of the spread of financial system infrastructure in Mozambique, showing that formal providers are concentrated in urban centres, with limited penetration in most rural regions.

Complex provider landscape. Payment services and products in Mozambique are offered by a variety of providers operating at different levels, with a lack of interoperability at core, systemic and channel levels. A distinction between core, wholesale, retail and local payment ecosystems is beginning to take shape. **Figure 66** shows the different providers and their interconnectivity:

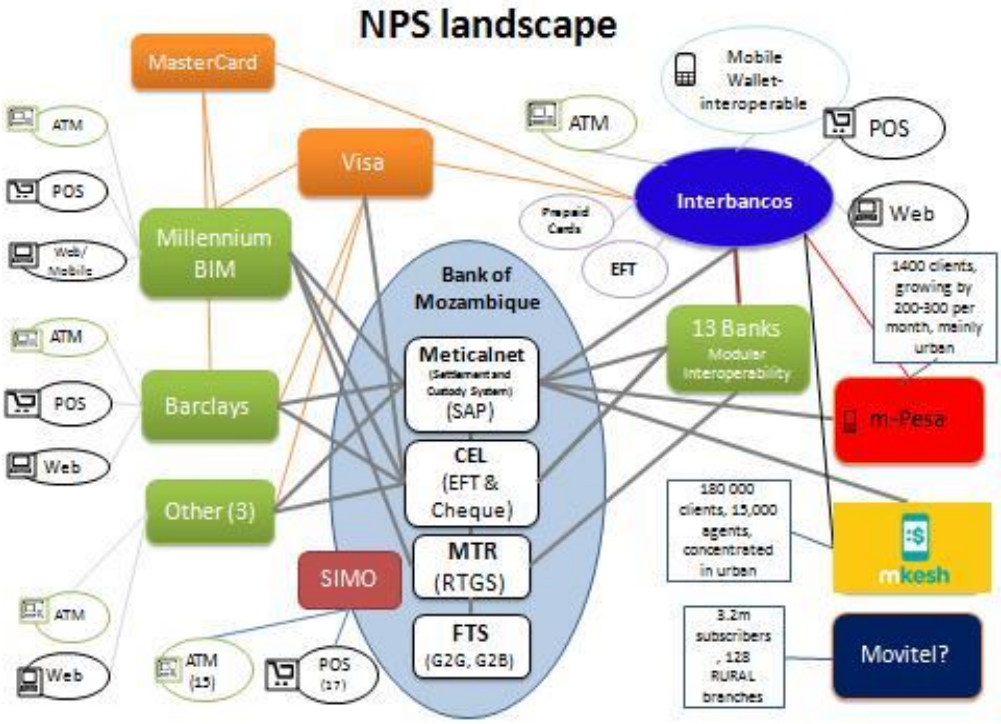


Figure 66: National Payments System and Providers Landscape

Source: Authors own based on industry consultations

Below, the core components of the landscape as depicted in the diagram are discussed in turn:

Payment system platforms and networks

The wider payments landscape contains fragmented systems that have grown organically over time in the absence of an effective centralised strategy.

Payment systems operated by BdM. The bank of Mozambique provides four different payments options, covering both physical and electronic payments. These are:

- Real Time Gross Settlement System (called MTR);
- Electronic Settlement (CEL)[1]: settles cheques of all values as well as EFT interbank transactions;
- Money and foreign exchange interbank system (Meticalnet); and
- Government electronic fund transfers system (STF).

Transaction clearing and settlement. The clearing and settlement of all types of instruments is done via Meticalnet. Cheque settlements are held over and settled the following day by inter-bank cheques and paper-based instruments upon verification and exchange of physical instruments. The delayed settlement is viewed as a risk by some banks and they are weary of exposure to the system. This could impact the banks' behaviour in expanding to segments which could further concentrate counterparty and systemic risk. The cheque clearance methodology could also pose a country systemic risk, particularly if the smaller banks face liquidity constraints, requiring mitigation in the form of operational risk measures at the consumer account level.

RTGS and CEL. The RTGS (MTR) system is operated between ten[195] banks as last officially reported. There remains uncertainty as to the framework for the establishment of other electronic payment clearing houses. Overall, the clearing and settlement backbone is the start of the formation of a core systemically important payment system to eventually surpass the CEL system for the centralisation of high value payments in real time.

Interbancos as private sector solution for collaboration among the banks. Interbancos is a private company owned by a group of commercial banks that operates the Ponto.24, Net.24 and Mobile.24 networks and payment systems. It provides interoperable payment services to thirteen Mozambican Credit Institutions (BCI, FNB, Standard Bank, Socremo, Banco Tchuma[196], Moza Banco, ICB, Banco Unico, Banco Terra, Banco Oportunidade, Cooperativa de Poupança e Crédito, mKesh and M-Pesa). Within the Mobile.24 network, Interbancos provides mobile payment interoperability between the mobile customers of some of the member banks, which is not only a unique achievement in Mozambique, but at the time of inception, unique in the sub-continent. Recent regulations regarding SIMO have brought into question the future of this facility.

New national network (SIMO) to be rolled out. Since the re-launch of the national payment platform concept in 2008, culminating in the signing of a memorandum of understanding between the BdM and all banks at that time in 2009, the Bank of Mozambique indicated its plans for a new national network, to be created by the *Sociedada interbancaria de Servicos de Mocambique* (SIMO). The BdM is the controlling shareholder of SIMO with 51% shares. The entire banking industry owns the remaining 49%, with a requirement to fund its growth and activities accordingly[197]. The first SIMO ATM became operational in 2012 and there were fifteen operational ATMs by 2014. Plans for the national POS and ATM platform emphasise a reduction in fees with streamlined functionality and include SIMO-branded or un-branded ATMs replacing some current ATMs and POS. Recent agreements now provide for a mix of SIMO and bank specific ATMs to accommodate branding and customised value added services unique to each bank. Current thinking would allow for retention of certain bank-branded ATMs, particularly those attached to bank branches. The success of SIMO relies directly on abilities of the BdM, government and banks to fund the capital investment required for the expansion of networks and to finance the level of roll-out of ATM machines required to make any meaningful change in the accessibility of encashment services which is currently severely inhibiting the expansion of entry level card based banking services.

MasterCard and Visa international card switches provide some interoperability. Many of the commercial banks are certified and linked up to an international card association switch, some banks are certified on both card association switches. Interbancos maintains linkages to both international card association offshore switching platforms on behalf of its member organisations. Theoretically, this means that there is a basic level of card-related interoperability between institutions. In practice, however, this level of interoperability is limited to a minority of association branded cards which are charged a premium fee for non-host network withdrawals at like-branded ATM and POS terminals.

[195] Banco de Mocambique, RELATORIO ANUAL 2013
[196] Banco Tchuma has since been taken over by two other banks.
[197] BFA, 2012

Banks

Banks offer range of transaction options, but have limited reach. The four large banks dominate the payments sector. They all offer a somewhat typical range of transaction products (see the discussion in **sub-section 6.1.4** below) and their predominant business focus is on corporate clients, high net worth and middle class individuals.

Structural limitations to extending the client base. The cost to income ratios of many of the commercial banks is more geared to high value, concentrated wholesale business than to low density dispersed business that requires reach, process efficiency and significant scale. As the product discussion below will show, closed loop card systems that are interoperable only through card associations also have limited marketability other than existing client bases. Consequently, for much of the excluded or thinly served population, a formal bank account serviced from an old-style bricks and mortar branch is not plausible.

Mobile money operators (MMOs)

There are currently three entities involved in the mobile money space: two MMO's, registered as Credit institutions, that are aligned with MNOs (as discussed in **Section 5.1: Institutional landscape**) and one payment systems operator on behalf of a consortium of banks (Interbancos), which provides interoperable MMO products to customers and non-customers of member banks. The third MNO, Movitel, is expected to enter the MMO space shortly.

Money transfer operators

The two major money transfer operators are MoneyGram and Western Union. MoneyGram operates via Standard Bank in Mozambique, with locations concentrated in urban centres[198]. Western Union has one branch per urban centre in the country, operating through *Banco Opportunidade* branches[199]. Other channels include TEBA (a migrant mineworker recruitment agency to South Africa) offices and Kawena.

As opposed to bank and mobile payments, money transfer operators offer a person to person transfer, counter to counter through their own proprietary clearance systems. Although quite costly, these remittance services typically do not require recipients nor senders to have a bank account. As there is generally no requirement for any ongoing customer relationship, the service can be regarded as *ad hoc* which is more appropriate for those groups with irregular income.

Post Office

Although *Correios de Mocambique*, the postal service, offers some financial services, it is regulated by the postal act[200] and technically falls outside of many financial regulations because it does not intermediate funds or take deposits. Outside of postal orders used for remittances and payment of military and civil pensions, *Correios de Mocambique*, has generally provided other services through partnerships with other entities. For example, the post office has partnered with the three MNOs to offer airtime sales from its branches as well as utility payments. Note that these services are not offered by the postal service itself,

[198] Locations of MoneyGram available here: https://extwww.moneygram.com/MGI/EN/MZ/Market/Market.htm?CC=MZ&LC=EN
[199] Locations of Western Union in Mozambique are available at: http://www.payment-solutions.com/showAgents.asp
[200] Law 08/2004 and regulations

but by others inside their premises. They have also rented adjacent space to bank branches to form convenient transaction hubs for consumers. In other markets in SADC and elsewhere in Africa, some post offices have converted into postal banks. In Mozambique, such a postal bank is being piloted but is only available in Niassa.

Many post offices are in poor physical condition, as they sustained significant damage during the civil war and many have not yet been repaired. In some extreme cases, the buildings are in such poor condition that some postmasters work out of their homes or central community points like stores or churches. *Correios de Mocambique* furthermore has no management information system (MIS), all business is still paper-based and most branches are not connected. The internal processing and communications systems are directed more toward logistics than towards financial services. Therefore it would require a considerable investment in people and systems to take advantage of the extensive footprint to provide broad based financial services in the longer term.

6.1.4. Products

The payment products available in Mozambique are heavily reliant on the nature and state of the infrastructure and distribution points as outlined in **Section 5.2: Distribution**. Below, we consider the landscape and instruments used for transaction banking, as well as the key features of the mobile money product offering.

Mobile money offers easier access and lower costs than bank products. As will be discussed below, mobile money products have both lower and fewer fees as compared to banks. In addition, mobile money can be accessed more conveniently through agent networks.

Mobile money operators subject to same regulations as banks. As mobile money operators must be licensed as credit institutions. Consequently, they are burdened, for example, with the same branch banking requirements as banks. A key advantage is that mobile money operators must apply the same KYC requirements as banks, which means customers must meet the same eligibility requirements for mobile money as would be required for a transaction bank product.

Approval from BdM required for all products. The BdM must approve all new products or changes in products. Such approval is given with a formal letter either stating approval, or simply stating that there is no objection. Approval is required for mobile money and regular banking products.

Below is further discussion of transaction banking products and mobile money respectively.

Transaction banking products

Various card options available, with reduced eligibility requirements for prepaid cards. All the commercial banks offer a range of transaction accounts with different features and requirements. Most banks provide credit or debit cards, which are usually linked to transaction accounts. However, with the exception of some of the larger banks, most banks have their own proprietary cards with ISO BINs on closed loop networks, though interoperability is available for those using Interbancos. Customers therefore can only access these cards after meeting ordinary eligibility procedures. In contrast, prepaid cards are used

by some employers to pay salaries. As discussed in more detail below, the holder of a prepaid card received through an employer is not subject to the same eligibility requirements as would be the case for a bank as the employer is required to hold the requisite employee records. However, such prepaid cards have been encoded only for use on ATMs and POS in order to reduce the impact on branch footfall and therefore such offerings have more streamlined functionality when compared to the unrestricted debit and credit cards in circulation.

Relatively high fees. **Table 2** reflects the fees associated with a selection of transaction services[201]. The first column indicates the type of fee. The second column contains, where relevant, an indicative average number of the particular type of transactions that a typical entry-level client would make per month based on research conducted by Genesis (2005; 2014). This column allows one to calculate the total cost per month of a typical bouquet of transactions for each of the various providers indicated, which can then be compared across providers and across countries. All amounts are indicated in MZN per transaction:

Feature	**Use Profile** [202]	**Banco Unico** [203]	**BCI**[204]	**BIM**[205]	**Banco Terra** [206]	**Mozabanco** [207]	**FNB**[208]	**Barclays** [209]
Dormant account		99	51	60	No mention	No mention	No mention	87
Cost of Debit Card		350	175; 240 replace	200	Free	Free	300	35
Debit Card Annual Fee		350	195	No mention	195	100	320	660
Cheque Book (10 cheques) @ Branch		450	98 (5 cheques)	180	160	220	240	600
Cheque bounce		2,100	2,100	2,100	1,750	1,850	2,100	2,500
Statement – Branch	0.11	1 Free; 60 after	1 Free; 51 after	1 free, 57.5	1 Free; 20 after	1 Free; 70 after	Free; 7 after	1 Free; 60 after
Statement – ATM	1.2	No mention	1 free daily, 5 after	5.00	No mention	5	10	8
ATM withdrawal	3.1	7	7	7	6	6	7	9

[201] Note that bank charges in Mozambique vary not only significantly in magnitude across banks but also across categories. Some banks charge to close an account, whilst others change for items such as deposit slips (which are mandatory when depositing cash at a branch). The selection of transactions here are those that are reported across the majority of the banks. They are also items that are generally used across countries and therefore offer some scope for comparability to other low and medium income countries, particularly where a MAP has been undertaken. Furthermore, banks were selected due to the size of their market footprint as well as data availability.
[202] The average cost across expressed in this column is the mere arithmetic average of all of the banks represented here.
[203] See :http://www.bancounico.co.mz/en/banco-unico-en/price-list.aspx
[204] See: https://www.bci.co.mz/PRECARIO_NOV_2014_ENG_NOT%20230x370MM%20(2).pdf
[205] See: http://ind.millenniumbim.co.mz/internalproviders/documents/precario_en.pdf
[206] See: http://sites.brandlovers.co.mz/bancoterra/wp-content/uploads/2013/08/Prerio-Geral-do-Banco-Terra-2012.pdf
[207] See: https://www.mozabanco.co.mz/content/download/81723/911469/file/Prec%C3%A1rio%202015.pdf
[208] See: http://www.fnb.co.mz/upl/%7Be3ff0ec6-b9a2-4895-8aa7-9fa69c22b053%7D.pdf
[209] See: http://www.barclays.co.mz/eng/content/download/3721/22840/file/Pricing%20Feb%202013.pdf

ATM withdrawal at other bank		14	14	14	12	6	10	17
Direct debit	1	Free	Free	16.5	-	N/A	100	45
Direct debit returned		200	Free	100	-	N/A	-	500
Deposit: Counter	0.31	Free	Free	Free	Free	Free	Free	Free
Withdrawal: Counter[210]		0	0	0	50	0	0	300
Estimated monthly cost	102.19	80.03	79.83	88.17	48.18	51.27	180.37	187.50
% of average national daily income[211]	51%	40%	40%	44%	24%	26%	90%	94%

Table 16: Transaction fees across different providers[212]

Source: in-country consultations and product scan. Methodology draws on Genesis (2005) and cross-country comparison is included from Jefferis and Manje (2014).

A few points are worth noting from the table:

- The return of a cheque due to insufficient funds is exorbitantly expensive, representing 42% of the average Mozambicans income. The cost associated with the issuing of cheques, whilst not as costly as returned cheques, generally makes them inaccessible to the low income market.
- Debit card transactions are very expensive when expressed as a percentage of average Mozambican income (3% to 21%[213]). The issuing of a debit card ranges from being free up to MZN 300, whilst the annual fees range from MZN 195 to MZN 660. Other fees related to debit cards vary by bank, but generally serve to further put debit cards out of reach of low income Mozambicans[214].
- Deposits at branches are free, whilst cash withdrawals are largely free. This is mandated by law.
- Whilst cash withdrawals are free at a branch, using an ATM has fees attached to it. These fees are large relative to the small deposits that Mozambicans make. The following quote gives a sense as to the size of some deposits:

[210] Whilst withdrawal at a counter is free as mandated by law, banks have found various ways to attach fees to these withdrawals through, for example, pricing deposit and withdrawal slips. These are the prices that are reflected here.
[211] The income figure used here is based on those respondents in FinScope that quantified their monthly income. Furthermore, as FinScope classifies individuals in terms of the bracket of income they fall into, the midpoint of that bracket was used as the assumed income that an individual receives. The percentages expressed here are to be used for comparative purposes only. Finally, since Mozambican banks are forced to recoup costs elsewhere, many hidden costs will not be reflected here and therefore this figure is likely biased downwards.
[212] All units are in Mozambican Meticais.
[213] These percentages are based on the cheapest and most expensive options highlighted in **Table 16.**
[214] Examples include the charges associated with the blacklisting of a lost or stolen card, charges to change a PIN (at the ATM or in branch) as well as additional charges to receive a debit card at a branch other than the one where the account was opened.

> *"The account (…) is for savings. In case I get 100 meticais, I will deposit it there."*
>
> Woman, 30-40, Inhambane

Turning to **payments instruments and channels**, a number of features and trends are apparent:

Debit cards dominate as card payment instrument. Debit cards account for around 96% of the number of cards in issue, followed by credit cards at around 3% and pre-paid debit cards at less than 1%. The diagram below shows that the number of debit cards in circulation (measured on the left-hand axis) numbers in the millions, compared to, on the right-hand axis, credit cards which in December 2014 numbered just less than 100 000 and pre-paid cards, which numbered a mere 20 000:

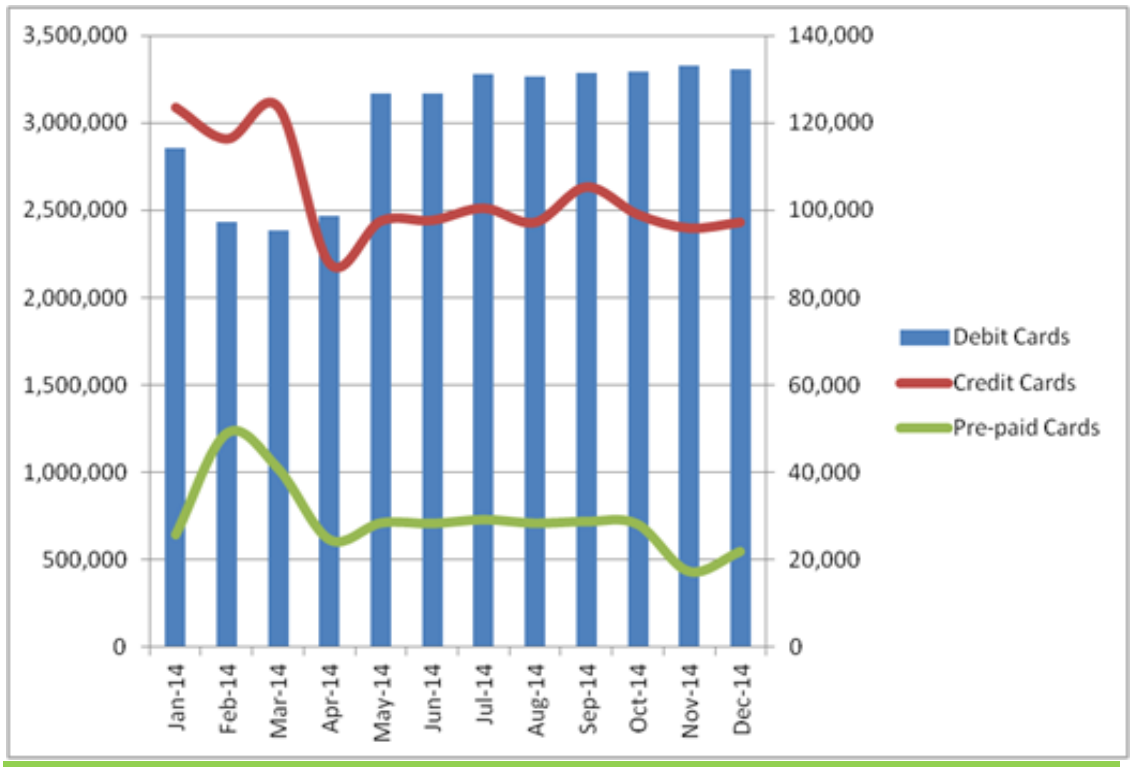


Figure 67: Cards in issuance by type, 2014

Source: BdM, Subsistemas de Pagamentos, Estatísticas, Banca Electrónica 2014

Initial steps are being taken with prepaid cards. Indeed, the issuing of prepaid debit cards, particularly to unbanked employees of larger companies, but also to unbanked service providers or even out-grower scheme participants with a relationship to corporate clients is one of the more innovative approaches to financial inclusion emanating from Mozambique.

Card channel used mostly for ATM withdrawals. The number of POS transactions in relation to ATM transactions reflects the degree of adoption of digital commerce in retail economies, as typically POS transactions reflect individual purchase transactions whereas ATM withdrawals are aggregate amounts not linked to individual retail transactions. Lower figures of around 7 POS transactions per ATM withdrawal, such as in India, are indicative of a predominately cash based economy, whereas higher figures of 16 (G20) to 21 (UK) indicate predominance of

digital financial services. In December 2014, Mozambique registered around 0.36 POS transactions per ATM withdrawal indicating a high preference for cash and low adoption of digital financial services, for those with access to card based transactions. The diagram below compares card usage per transaction type. Almost 80% of all non-branch card transactions are through ATMs, 73% to withdraw cash alone. On average, only two ATM withdrawals are made per card per month (BdM 2014 data), indicating that very few cardholders use their card for anything else than a single large ATM withdrawal weekly or monthly. Thus very few transactions are digital and cash remains king.

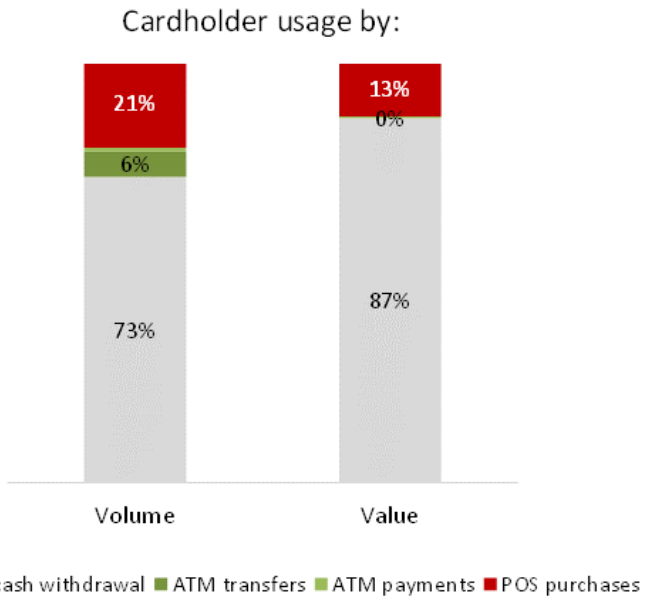


Figure 68: Card usage spread

Source: BdM Annual Report (2013)

POS devices underutilised. Ideally there would be a mix of card-based transactions split between ATM and POS terminals. There are currently more than ten times more POS terminals than ATM machines (BdM 2014). Yet the diagram above shows that the total value and volume of ATM transactions is seven times the value of POS transactions and 3.6 times the number of POS transactions. This indicates severe underutilisation of POS terminals. Usage and turnover figures for December 2014 show that less than one POS transaction was processed for every card per month. This indicates a largely inactive card base. This is partly a symptom of the idiosyncrasies of an environment heavily dependent on cash and partly due to industry structure, as unpacked in **Box 14** below.

Box 14: Why do so few cardholders use POS devices?

Urban concentration of outlets. Ninety-one percent of Mozambicans report that POS devices are rare or unknown in their area and that POS devices are mostly concentrated in urban centres[215]. Between 2011 and 2013, overall numbers of POS devices increased by almost 42% per annum. However, as the discussion in **Section 5.2: Distribution** showed, 49% of all POS devices are concentrated in Maputo City alone, rising to 60% when Maputo Province is added.

Increased number of POS terminals does not necessarily indicate increased access. The number of POS devices can be misleading as an indicator of take-up, as this does not reflect the number of retailers that have a POS device. For a number of reasons, some retailers will have multiple POS devices while others will have none. The increasing numbers of POS devices, therefore, do not translate into new areas/retailers being covered. This is due to a lack of interoperability, with the different banks using separate networks and switches[216] (see **Section 6.1.3: Providers**). In the absence of interoperability, it is logical that banks would incentivise "on-us" transactions, thereby avoiding any interchange or agent network related costs.

Practically this means that a single retailer often needs separate POS devices for each switch, bank or proprietary network and that merchants without high transaction values are excluded from offering POS facilities. Thus POS penetration is likely much lower than is reflected by the number of devices. To illustrate this point by observation: in a single road in an urban area, neither a convenience supermarket, electronics retailer nor service provider had a POS terminal. Yet a restaurant at the end of the road had many different POS terminals, enough devices to supply most of the businesses in the street.

ATM capacity over-extended. Limited effective access to POS transactionality means that banked customers with cards rely on branch and ATM functionality. Yet the rollout of ATM machines has lagged behind POS and cards in circulation. **Figure 69** below shows that the number of accounts (left-axis), cards and POS terminals (right-axis) have expanded on a roughly similar trend between 2008 and 2014. In contrast, the number of ATMs has grown at a much lower rate:

[215] Finscope 2014

[216] Bim and Barclays have their own switches, some banks use proprietary networks, and 13 banks use a common network and switching platform, Ponto.24.

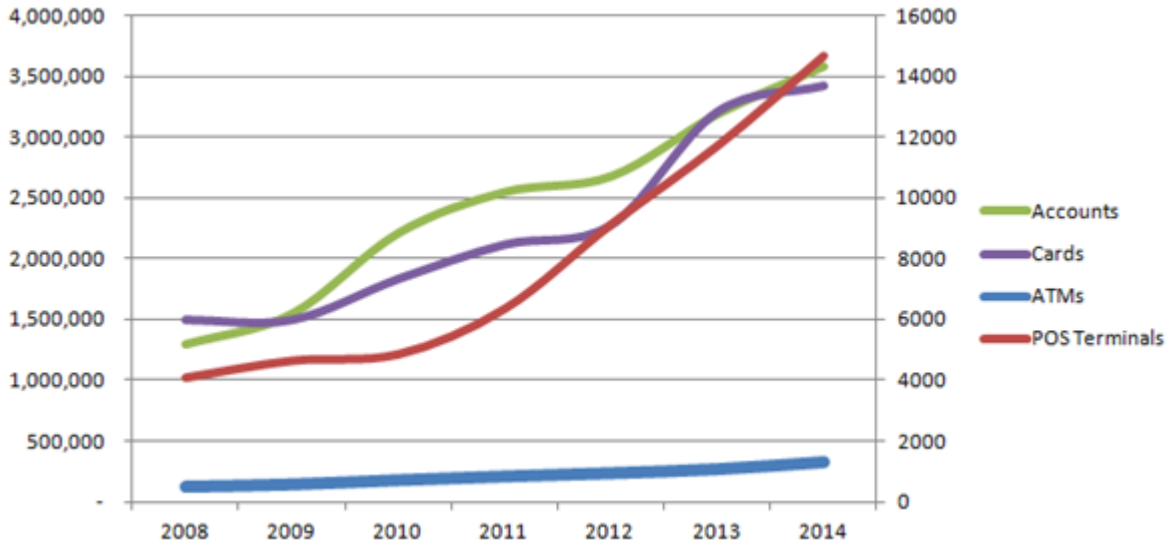


Figure 69: Increase in number of ATMs compared to POS terminals, cards and accounts

Source: BdM, Subsistemas de Pagamentos, Estatísticas, Banca Electrónica 2014

The result is that the usage of cards is predominantly as an encashment tool and this puts strain on ATM capacity (see **Box 15** below).

Box 15: Estimating the ability of the ATM network to cope with current and enhanced transaction traffic

Concentrated ATM penetration. From 2011 to 2014, the number of ATMs increased on average 18% per annum off a low base. As with POS terminals, the discussion in Section **Section 5.2: Distribution** showed that ATMs are concentrated in Maputo City and Maputo Province. Unlike POS devices, however, there is also a significant third point of concentration in Nampula. Together, these three provinces account for 58% of all ATMs in the country. *Can the current payments footprint support the advancement of card enabled formal banking services to a wider target market?*

Current ATM fleet well below international benchmark density. To get better insight into this issue we look to international benchmarks and guidance as to the ideal number of machines and apply it to the current market, whilst taking into consideration specific local considerations. According to the Committee on Payments and Settlement Systems (CPSS), the international payments standard-setting body, the average number of ATMs per million people for 2012 was 415 (BIS, CPSS – Red Book statistical update December 2013). Applying this standard to Mozambique would require around 10 250 ATMs, reducing to 4 470 ATMs if only the economically active population is considered. The current ATM fleet stood at 1 302 in December 2014. As discussed above, the reach of the ATM network is constrained by the significant urban concentration thereof.

It may, however, not be meaningful to apply a developed world standard as above to the Mozambican context. A more pragmatic view would be to consider the capacity of the current installations and take the usage patterns into account to arrive at a more tailored insight. Below, such a scenario exercise is conducted:

Substantial time-concentration of activity. As discussed above, ATMs are utilised mostly in single monthly or weekly cash withdrawals. It is therefore reasonable to assume (backed up by market consultations and on site observations) that cash withdrawals are not made uniformly across the month but mostly on the last three to five days of the month and on Fridays.

Existing ATM network cannot even cope with current transaction volumes. Based on the December 2014 BdM figure of 8 654 479 ATM transactions via 1 302 ATMs, and assuming 100% network communication up-time and three to five minutes per transaction to be conservative (considering the significant time for ATM transfers, ATM payments, network downtime, slow response times and some issues with consumer literacy), the average ATM would need to operate at an estimated 10 to 18 hours per day non-stop, without replenishment time, just to accommodate the transaction needs of the current banking client base. As most transactions are likely to be at or close to payday, this inevitably means long queues and an inability of the current infrastructure to deal with payday transactions. Viewed another way: each machine has to process 210 odd transactions every day, not taking into account peak traffic days around month end. Thus the ATM fleet will likely be in a constant state of costly preventative and emergency maintenance, with frequent replenishment cycles, particularly around month end.

Infrastructure deficit entrenches mailbox account behaviour. Restricted access to ATMs, particularly on peak days, may be one of many factors driving single cash withdrawal behaviour. The capacity of the ATM fleet is at the point where it will cause consumers to reduce their exposure to the network or to opt out in favour of the physical cash economy. To illustrate this point: if all current consumers would make two withdrawals per month, the likely impact would be that each ATM would need to increase operational times to between 15 hours and 25 hours per day. Thus it is clear that the current ATM infrastructure cannot accommodate anything more than the current mailbox behaviour – and

that the frustrations of queues at ATMs during bottleneck times entrench such mailbox behaviour among clients. If the international benchmark is considered, the current fleet of 1 300 ATMs would need to more than triple in order to accommodate any consumer behaviour beyond a single cash withdrawal.

Prepaid cards emerging as innovative payment instrument. To date, prepaid cards have been piloted primarily with large companies and their workers. So far, this has not been done as a financial inclusion initiative, but in response to a corporate client requiring a solution to cash handling and cash salary and procurement pay-outs. Money loaded onto the card technically remains the property of the corporate entity rather than of the employee recipient, although this position has likely changed with the advent of Bank Card Regulations Aviso 1 GBM 2014. Essentially, the card works similar to a cheque or voucher, giving the employee rights to draw down funds from the corporate account or bank trust/suspense account. At present, there is limited functionality, in keeping with the nature of a payment instrument and not that of a fully-fledged banking account nor banking relationship. This means that prepaid cards are currently limited in functionality to POS purchases, ATM withdrawals and can also act as a store of value until the balance is fully depleted. The Aviso also provides for the reloading of the card with additional value if it is so configured.The limit on prepaid cards varies between banks.

Box 16: How do prepaid cards work?

Prepaid cards operate in the same manner as a cheque, bill of exchange or voucher but allows divisibility and flexibility with regard to withdrawal or utilisation of preloaded value piecemeal and not negotiated for the total instrument value.

Instead of a cheque or voucher, a sub-account of a corporate current account is created and linked to a limited usage prepaid debit card. The card is issued to an employee, contractor or bank client who is entitled to draw down funds from the corporates account up until the limit or sub-account balance. The funds technically belong to the account owner, being the corporate or bank until they are withdrawn, but in terms of Aviso 1 GBM 2014 Bank Card Regulations, the value is held in trust for the cardholder by the credit institution. Prepaid debit cards can be encoded so that they can only be used at ATMs or POS and cannot be used within branches for counter withdrawal facilities, effective keeping additional footfall out of costly and congested branches. Some banks utilise prepaid cards as travel cards or travel wallets for use internationally across POS, ATM and agent bank systems with limits up until USD5 000. With the creation of the Bank Card Regulations Aviso 1 GBM 2014, together with the Agent Banking Decree 30 2014, the possible application of prepaid cards could be drastically extended through the use of POS cash advances instead of utilising ATM infrastructure, provided POS interoperability is achievable or mandated in the short term.

Prepaid cards help overcome AML/CFT barriers. The employee only becomes the owner of funds once paid out or when value is transferred. Employees can only access available funds through a sub-account by means of either ATM or POS and therefore deposits can only be facilitated through the consent and participation of the employer or the bank unless reload functionality has been encoded on the card. The sub-accounts only exist to the extent that the employer or bank provides. Therefore, the AML/CFT due diligence is either at the corporate

or employer entity level or at the bank branch depending how the card was issued and who the owner of the card is. Transactions will still be subject to newly legislated AML *ad hoc* thresholds. Some banks also issue prepaid cards in the same way as they would issue counter cheques, for clients needing card association branded cards to travel abroad and to make online payments without compromising their own credit or debit cards.

Expansion and functionality of prepaid cards limited by payments "ecosystem"[217] constraints. From a financial inclusion perspective pre-paid cards provide an efficient gateway to limited banking functionality. However, they typically require the cooperation of a large employer or entity. Furthermore, the rollout of any initiative in the unbanked or underserved market is dependent upon the financial ecosystem into which it is launched. Being a card-based product, the efficacy and reach of the card payment channel as a whole has a material impact on the viability of pre-paid debit card schemes. From interviews it became apparent that there were instances where employees and contractors were issued with prepaid cards in order to streamline staff and procurement controls and procedures within the company. However, the bank then had to arrange mobile ATMs visiting the site due to the lack of any encashment points in the vicinity of the corporate premises. Hence the prepaid card merely transferred cash handling logistics from the corporate to the bank and, without a transaction-enabling ecosystem around it, could provide only limited functionality to clients.

Limited scope for payroll deductions. Salaried government workers, 9% of whom make use of payroll deductions, are the only target market that currently has access to payroll deductions. The main reason for this is because payroll lenders require borrowers to have regular salaries that are automatically deposited into a bank account, so that the lender can conduct electronic direct deductions. Because of the focus on government workers, this means only about 4% of the total population has potential access to this product, and so the current market potential is extremely limited. Payroll lending, included some of the reasons for the focus on government workers, is discussed further in **Section 6.2: Market for credit**.

Severely limited EFT, debit order, and credit transactions. EFT debit and credit transactions are underutilised. Electronic payment instructions are currently being cleared through the CEL system and ACH. The number of participants has grown from three to ten as last reported by the BdM. Industry comparisons show that interbank credits and debits now feature on most bank price lists as retail service offerings and yet in terms of payment system reporting, the volumes and value cleared are disproportionately small when compared to cheques and to cash withdrawals. EFT transactions are low because most transactions stem from banks, rather than from individuals. From consultations it appears that very little activity takes place outside of the payments clearing houses. For industries that require recurring payments, the absence of debit orders means that either (a) they are taking payments in cash, or (b) the industries typically dependant on debit orders are at an early development stage, which is supported by the insurance access strand of FinScope 2014.

Some innovation on the back of banking infrastructure. EDM (Mozambique's electricity parastatal) has created a system called Credelec. It allows for electricity pre-payments to be made via mobile device or via an ATM, leveraging BIM's ATM and branch infrastructure. This service is also extended to those who are not banked with BIM or unbanked, and the bank acts as a payment consolidator and accrues commissions from EDM. Further, BIM has

[217] "Payment ecosystem" is a term used to describe digital payment value chains developed to adequately service digital payment modalities in a manner that will enable consumers to interact with both digital and physical payment instruments.

leveraged its network for its IZI offering, which operates through all MNO providers. IZI is essentially a pared down online banking menu for BIM account holders that can be conducted on a mobile phone via USSD. It is currently not an electronic wallet, nor a mobile money offering, and the mobile device is merely an access channel to a banking account.

Mobile money products

Broad functionality. mKesh and M-Pesa both currently provide the following services: remittances (P2P), bill payments (P2B), short term savings or store of value and voucher or airtime sales. The consultations revealed plans for a pipeline of innovative products such as a mobile money-based VSLA management system that could potentially do away with the strong boxes of savings groups and remotely intermediate local cash resources in a secure manner. While such products hold potential in principle, there are likely to be a number of substantial challenges to roll-out and uptake in practice. However, as discussed in **section 3. Regulatory and Policy Environment**, a comprehensive e-money regulatory framework leaves uncertainty as to what products will be permitted by the regulator. For example, regulations currently prohibit mobile money operators from intermediating deposits and thereby offering separate savings products that earn interest. Currently MMO's, despite being credit institutions, are required to maintain their float accounts in the books of other credit institutions (commercial banks) that are indeed able to intermediate those deposits in the form of interest free liabilities, but not for the benefit of either the MMO nor the consumers who are the joint beneficial owners of the float deposit. In practice, providers often seek permission from the regulator on a case-by-case basis before offering new products.

Mobile money attracts lower fees than bank accounts. **Table 17** indicates the costs associated with mobile money transactions. These are considerably lower than bank accounts, particularly for low value transactions. Furthermore, there are fewer hidden and additional costs (such as debit card annual fees in the case of a bank account).

Cost for M-Pesa (in MZN)				Cost for mKesh (in MZN)		
Transaction amount	**Cost to send (non-member)**	**Cost to send (member)**	**Cost to withdraw**	**Transaction amount**	**Cost to withdraw (all categories)**	**Cost to send (member)** [218]
5-100	3	1	3	20-100	5	5
101-500	15	5	8	101-1,000	8	5
501-1,000	15	5	8			
1,001-2,000	20	5	12	1001-5,000	12	5
2,001-5,000	25	5	15			
5,001-10,000	80	10	50	5,001-10,000	25	5
10,001-25,000	100	10	70	10,001-25,000	50	5

Table 17: Mobile money fee structure

Source: Product brochures; websites

Current take up relatively low, growth tapering off. At the end of 2013, total registration for

[218] The cost and eligibility for transferring to non-members was not available on the mKesh website during desktop research.

mobile money in Mozambique was between 4% and 5% of the adult population (485 000 clients). This is relatively low compared to the rapid take-up of mobile banking in for example Tanzania (50% of adults[219]) and Uganda (just less than 50% of adult population[220]). At the end of 2014 the number of mobile money subscribers were reported as 880 000 (BdM, 2014), although the number reported in Finscope 2014 is significantly less at 360 000. This could possibly indicate a lower active subscriber base. Importantly, there was little change over the second half of the year, possibly indicating a plateauing off in subscriber numbers.

Low per-account activity. Activity by subscribers over the course of 2014 indicated an average of 2.6 transactions per subscriber per annum consisting of 1.9 bill payments per subscriber and 0.7 person to person payments to other mobile accounts. Despite the very low subscriber activity, the average values of the transactions where surprisingly high, with MZN 2 500 average per bill payment and MZN 1 700 per mobile transfer, according to published BdM 2014 figures. The high transaction values are likely influenced by agent bulk transactions and the early adoption of the payment channel by the more affluent.

Interbancos-provided products. Mobile24 is a mobile money product that is interoperable between all bank clients and bank accounts on the Ponto24 network that offer Mobile24. It is therefore interoperable at the institution, system, scheme and channel levels. Mobile24 works across all mobile networks and is not dependent upon a user having any bank account, although initial funding would need to come from a Mobile24 linked bank account to establish the mobile sub-account. It is not interoperable with mobile money accounts in closed loop schemes such as M-Pesa and mKesh. Ponte24 has established non-card based ATM facilities for use initially with Mobile24 mobile payments and, over time, potentially for mKesh and M-Pesa (as they are both Interbancos members).

Post office products.

Money transfers through post office inefficient. *Correios de Moçambique* offers some money transfer services, known as *vale postal*. However, this is not done through an integrated electronic system. While transfers are generally processed as a postal order, in practice the system is somewhat ad hoc. The person sending the remittances provides a postal employee with the funds to be sent, the name of the recipient, and the location of the closest postal branch to the recipient. The postal employee will then phone and provide this information to an employee at the branch where the funds are to be collected by the recipient. If the second branch has sufficient funds to make the disbursement, it can do so and the transaction will be settled between the branches at a later date. If the funds are not available, then the cash must be physically transported to the second branch. This process is inefficient and can be costly. However, it does allow the post office to provide some services despite current constraints.

6.1.5. Regulatory issues to consider

Regulation of transaction fees distorts business models, increases costs. **Section 3: Regulatory and Policy Environment** provided an overview of *Aviso 5/2009*, which creates a list of activities and transactions that may be charged to customers and imposes a number of transparency requirements on the banking sector. While this regulation brings clarity regarding consumer

[219] FinScope Tanzania 2013. Available at: http://www.fsdt.or.tz/finscope/sites/default/files/pdfs/FinScope-Brochure-2013.pdf
[220] BDLive, 2014. *Cellphone is virtual bank as mobile money gains.* June, 2014. Available at: http://www.bdlive.co.za/business/technology/2014/07/11/cellphone-is-virtual-bank-as-mobile-money-gains

pricing across the banking sector, it has a number of unintended consequences for the payments market that together undermines financial inclusion and the deepening of the financial system. A notable feature of *Aviso 5*/2009 is that cash deposits or withdrawals at a branch may not attract any fees[221]. The stipulation of free services can adversely affect the demand for financial products and payment instruments, locking in a business model and particular payment instruments in a way that undermines innovation and business model evolution:

- *Pricing not in line with true costs*. Electronic payment instruments and channels have advantages over physical instruments in the form of cost-effectiveness, efficiency and reach, which are all essential attributes required for broader and deeper financial inclusion. Yet the impact of *Aviso 5/2009* is that the true cost of cash is not calculated or taken into account in business or consumer decisions (and the mandated pricing transparency masks true costs). Credit institutions, not being able to transparently recover cash handling and related charges, rely on the disproportionate pricing of other services to compensate. Furthermore, the usual result of a price cap is that all prices converge on the cap. An example of this is the practice to charge customers for the issuance of a withdrawal slip (the paper record confirming the value withdrawn) as opposed to the withdrawal transaction.
- *Preference for physical instruments entrenched*. The inability to transparently charge for the cost of cash logistics pushes up disproportionately the cost recovery applied to electronic instruments and channels, meaning that cash remains the cheapest way to transact. In this way, the preference for cash and cheques in the economy is entrenched and no incentives are created for financial institutions – or corporate clients that handle large amounts of cash – to move to electronic alternatives. Als*o within* the card channel, the cash withdrawal and deposit transactions that may be charged for are priced at lower levels than electronic services, possibly due to the fact that comparable cash baseline pricing is zero. Thus even those people already served by the banking sector are incentivised to transact in cash rather than electronically. This is evident from the fact that the market propensity to use cash remained largely unchanged between 2009 and 2014. Even when more effective electronic instruments become available and accessible, like POS, there is negligible growth, as the opportunity cost to continue using cash is either marginal or zero.
- *Business models follow suit.* Thus the only business case for retail electronic transaction modalities is convenience or prestige, and consumers are expected to pay a premium for it. Implicitly, this leads banks not to regard payments as a means of extending the client base, but simply as a convenience factor for high-end clients, which in turn impacts banks' strategies regarding where to roll out POS devices.
- *Importance of regulation in shaping market incentives*. In summary: pricing does not just reflect cost; it is often used to incentivise behaviour of consumers. Therefore, if the country wants to start moving out of cash or to use electronic rather than cheque payments, banks would need to be able to structure transaction charges to incentivise users to do so. That is not possible under aspects of *Aviso 5/2009*.

Gaps in payments framework. The National Payments Systems law has moved the payments services industry a long way, but a comprehensive regulatory framework is still lacking which

[221] A practice has arisen to charge not for the cash withdrawal service but to levy a small charge for the issue of the compulsory deposit slip.

directly impacts the manner in which processes are conducted. Specifically, the regulatory structure for electronic money issuers at the time of writing consists of only four lines inserted into the Credit Institutions Act. This does not provide a sufficient framework on which to expand e-money services. In part, this leaves ambiguity regarding types of products that mobile money operators can offer. For example, the float for e-money cannot be less than the amount of money issued to e-wallets. However, it is not clear if the float can exceed this amount, such as through the earning of interest. This in turn has implications for the ability of mobile money operators to offer interesting bearing savings products.

New AML/CFT framework has pros and cons. The new AML/CFT framework, as outlined in **Section 3: Regulatory and Policy Environment**, reduces barriers in the payments market by allowing verification of identity through multiple sources and no longer requiring the provision or verification of address details. It also sets a high threshold for ad hoc, cash electronic transactions, at the equivalent of USD1 000. This threshold is arguably applicable to mobile money, though the existing regime has not been explicitly amended to bring clarity in this regard. On the downside, the new framework does not allow for any threshold for account opening or entering into a business relationship. Thus there is no scope for tiered KYC for entry-level bank accounts.

Pressure to expand branch banking, despite costs. As discussed in **Section 5.2: Distribution,** the BdM until recently was pressuring banks to expand their branch networks as a means to extending access to financial services. Because of the costs of brick-and-mortar branch expansion, as described previously, such a policy inhibits potential innovation and cost reductions that can stem from alternative distribution channels and more efficiently improve access. The advent of the Agent Banking Decree 30/2014 and the awaited regulations will be crucial in expanding access to transaction channels. One detracting aspect is the inability of credit institutions to close or withdraw agency representation making the business case for the outlying and thinly served areas possibly too inflexible. Connection to SIMO as a prerequisite could have the potential to delay the expansion of agent banking modalities.

Branch requirements limit payment innovations. Most of the banks now offer mobile transaction services, including Millennium Bim and the 13 banks in the Interbancos network through Ponto.24. Aside from mobile money, however, innovations (for example branchless banking through retailers) that could increase the footprint of banks around the country are limited. One of the limiting factors, as discussed, is banking regulation stipulating strict, extensive and indiscriminate requirements for bank branches. Notably, the Law on Credit Institutions and Finance Companies (15/99 as amended by Law 9/2004) and its regulations control the minimum standards for a branch of a credit institution, including an electronic currency institution, and stipulates minimum physical requirements such as double security doors, money deposit safes and minimum staff requirements even where these are not relevant to the business nor risks. The implication is that banks are currently, and prior to the promulgation of banking agency regulations, precluded from exploring partnerships with alternative payment distribution entities, such as retailers and agents, to accept client deposits. In the case of MMOs, the agents essentially trade with their own funds and their own digital currency. With the advent of the Agent Banking Decree 30/2014, it remains to be seen in terms of regulations to what extent the onerous branch banking infrastructural requirements are transferred to agents' premises and to what extent the agent banking model would be itself become too costly for wider expansion.

No framework for prepaid cards. Currently, there is no comprehensive regulatory framework for prepaid cards other than the card association rules. There exists the danger that prepaid cards become abused in confidence or pyramid type schemes. Therefore, while prepaid cards are currently expanding, appropriate regulations will be necessary to help protect against such abuses.

6.1.6. Barriers to access

The analysis above touched on various factors that create barriers to the expansion of electronic payments in Mozambique. Here, the most pertinent usage and access barriers are summarised for the transaction banking and mobile money markets, respectively.

Box 17: What are access and usage barriers?

Barriers to usage may arise from two angles:

- **Access barriers** are factors relating to the supply of financial services that preclude certain individuals from using such services. Affordability, availability of the service within easy reach, the eligibility requirements set and the appropriateness of the available products to prospective clients' particular needs are the main access barriers.
- **Usage barriers** refer to factors that cause people not to use financial services even if they technically have access to it. Usage barriers are internal to the individual or society and include perceptions, trust, financial capability and the fear of officialdom.

Transaction banking market

Distance and misinformation key barriers. Of those who do not have bank accounts, 20% indicated that distance is one of the reasons that they do not. Just over 10% indicated that they do not believe a bank account is for a person like them, whilst 10% indicated that they do not know how a bank account works. This ranks behind the affordability consideration that they cannot maintain the minimum balance[222].

[222] FinScope (2014) also asked if service fees were a significant barrier, however only 1% of respondents who had a bank account indicated that this was the case.

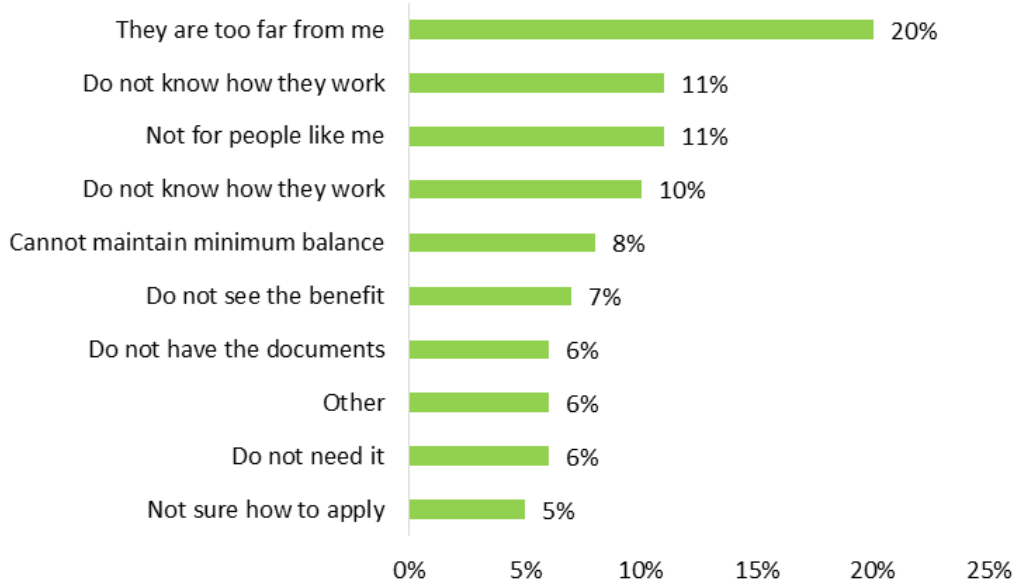


Figure 70: Reasons for not having a bank account

Source: FinScope (2014)

Despite low use, banks are viewed favourably as an option for sending remittances. The FInScope survey findings suggest that banks are a trusted channel for remittances. When Mozambicans were asked regarding their views of various channels, they identified banks as the most reliable, cheapest and easiest channel to remit. Taxis and friends or family members are viewed less favourably, with the prior being regarded as one of the most expensive, slowest and difficult channels to remit through. The latter is regarded similarly, except that it is viewed as a cheaper option for remittances than taxis.

Affordability. The affordability implications for banking channels were discussed above. Though bank accounts are generally more expensive than for example mobile money, the demand-side research revealed that affordability is a relatively smaller concern for Mozambicans, especially when compared to informal options in the remittances market.

Proximity. As discussed, cash remains the preferred, and most common, medium for conducting transactions. This partly reflects preference (a usage barrier), but given the current spread of payments infrastructure as discussed in **Section 5.2: Distribution** is most likely indicative of a proximity access barrier: most Mozambicans do not have any option to access and use cash alternatives.

Eligibility. As discussed above, the new AML/CFT regime removes most eligibility barriers for low-value non-account transactions. Where account-based transactions are concerned, eligibility barriers are low, but there is no scope for tiered exemptions.

Mobile money market

Lack of information a key barrier. As **Figure 71** indicates, the primary reason for not making use of mobile money services is a lack of information. Over half of those that are aware of mobile money services indicated that they do not have enough information about the service, whilst just under a quarter have indicated that they have not given it much thought. The information barrier ranks behind the distance, affordability, and income barriers.

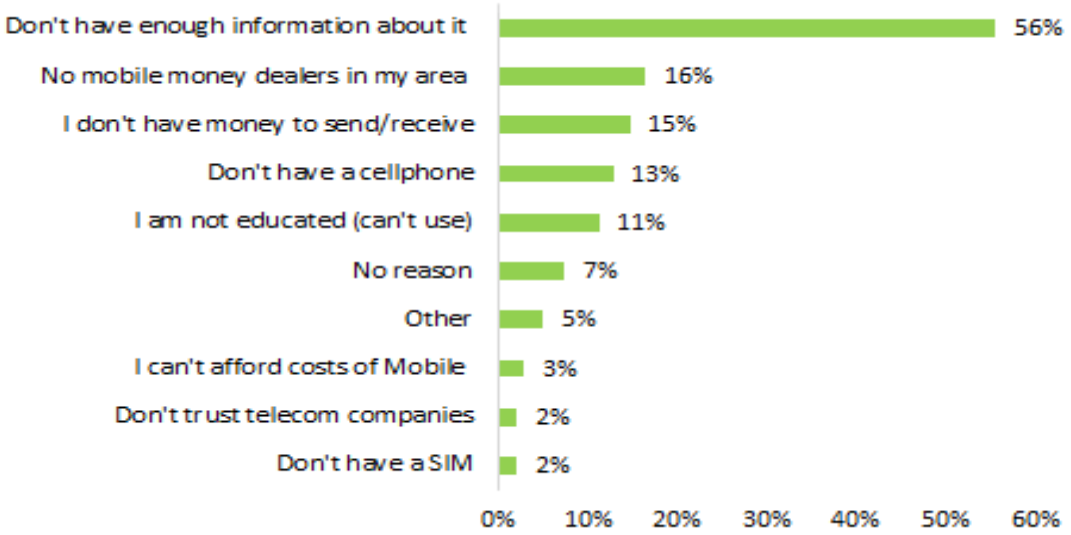


Figure 71: Reasons for not using mobile money[223]

Source: FinScope (2014)

Perceptions persist that mobile money has limited functionality. There is a market perception that mobile money operators function primarily as channels for airtime purchases. This springs from the initial launching of the mKesh service as an airtime sales channel in 2011 (due to a technical difficulty). This first introduction of mobile money as an airtime payment mechanism seems to have stuck in the minds of consumers. Subsequent intensive marketing by both mobile money providers has emphasised the money transfer and other services.

6.1.7. Gaps & opportunities

Significant opportunity – but limited by confluence of regulatory, infrastructure, market depth and supply-side elements. The analysis presented in this section paints a dual picture:

[223] The percentages indicated here use Mozambicans who indicated that they are aware of mobile money, however that they are not a member of a mobile money network. It should therefore not be used to make inference about Mozambicans overall.

- **Upside**: On the one hand, the market for payments is the product market already reaching the most individuals. This market speaks to a need for transacting in the real economy across various use cases. Efficient payment systems are necessary for the effective functioning of all other financial services, and indeed the broader economy. Given the low average incomes of Mozambican adults and the high transaction and opportunity costs of reliance on physical cash and cheques, cheaper and more efficient payment mechanisms can directly increase the amount of funds households have to better secure their welfare[224]. There are already a number of players active in this market and the innovations by Interbancos, amongst others, are notable even in regional and global terms. Mobile money, likewise, is an innovative payment instrument and channel that has already pioneered agent networks for transactions and bill payment aggregation, plus has group scheme functionality. Mobile infrastructure is already quite well spread and reliable throughout Mozambique. Therefore, little infrastructure investment is needed in order to expand mobile money services. Such services provide a cost-effective digital alternative to physical branch and payment infrastructure, making it the one payment channel with the potential to serve large numbers of under-served and excluded people. Furthermore, because MNOs are already licensed as credit institutions, mobile money has the scope to add functionality such as cards, subject to permission from the BdM.

- **Downside**: Yet, on the other hand, a number of structural market gaps reinforce the regulatory issues outlined above to limit the actual potential for low-cost electronic payments at scale. In particular, multiple payments switches, combined with a lack of interoperability, create inefficiencies and increase costs, thereby negating some of the possible gains of an electronic payments system. This holds across both the transaction banking and mobile money spheres.

Box 18: Significant demand-side potential for mobile money

Figure 72 indicates the type of product that mobile phone owners[225] in Mozambique make use of. The excluded portion of mobile phone owners represent 44% of mobile phone users or 2.6m people. If those that have access to only informal products are considered in addition to those that are excluded, this figure surges to 63% or 3.8m people. This represents the number of people in Mozambique who have a mobile phone but do not interact with any formal type of financial institution. Of the 6m Mozambicans over the age of 16 that own a mobile phone, 63% or 4.1m are unaware of mobile money (FinScope, 2014). The desire to use mobile money is also reflected in the qualitative research, for example: a respondent involved in an outgrower scheme with MLTC indicated that he would find it useful to be able to purchase supplies from MLTC via mobile money.

[224] The use of physical instruments as opposed to electronic instruments incurs significant additional transactional cost in the form of risk, distribution, processing operations, logistics, timing of transactions and the opportunity cost of increased cash holding cost. The cost and effort required to provide physical instrument based services reduce the ability of financial service providers to provide more cost effective payment services that are affordable and accessible to a broader target market. Typically financial institutions have high cost to income ratios (ranging between 72% and 64% in 2013 according to the 2013 BdM Annual Report). Thus they are less able to extend services to a broader market unless there is a significant reduction in the proportion of physical instruments utilised.

[225] According to FinScope 2014, there are just short of 6 million individuals in Mozambique that are over the age of 16 that own a mobile phone. They form the total population for the venn diagram represented in **Figure 72**.

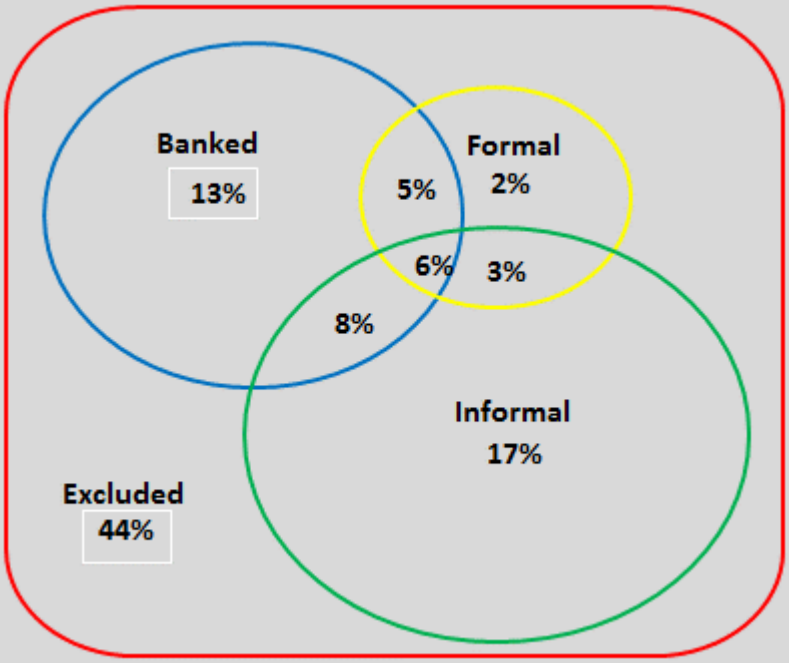


Figure 72: Type of financial product used by mobile phone owners in Mozambique.

Source: FinScope (2014)

A number of factors together create this state of affairs:

Limited interoperability increases costs. Arguably the single biggest structural challenge in the payments market is the lack of interoperability. The fact that the RTGS (MTR) system is operated by ten banks is encouraging from the perspective of establishing core real time interoperability, but the wider payments landscape is still characterised by limited interoperability. As discussed above, different banks use different switches. This limits a customer's access points, such as ATMs and POS devices, to those provided by a specific institution, meaning that banks must provide redundant infrastructure, which drives up costs. Similar constraints are faced in the mobile money market.

Box 19: Getting to the bottom of the interoperability challenge

No industry standards or regulations regarding sorting at source. Part of the reason why there is less incentive for banks to pursue interoperability is because there is no industry conducts standards addressing "sorting" transactions at the source of sale. Sorting at source is when the transactions are conducted through separate POS devices for each switch. Therefore, each bank will need to add their own machine, which increases the costs of installing and maintaining POS devices. This results in the disproportionate spread of POS, as one teller may have as many as five POS devices. Inevitably this type of micro-level tactic results in the concentration of card acquiring activity around high turnover and high ticket value merchants with limited emphasis on broadening the card acquiring and issuing businesses.

Impact felt particularly in low-value card-based systems. The consequences of an array of competing, non-interoperable systems is that functionality vital to deliver lower value and cost-effective payments services is suppressed. This particularly impacts low value debits and card based systems (POS and ATM distribution). The current form and structure of the collection of core and retail payment systems significantly reduces the possible footprint and utility of existing infrastructure.

Competitive forces prevent move from sophisticated part-interoperability to full interoperability. Interbancos arguably has all the capability of a sophisticated financial system and is particularly well geared to address interoperability hurdles and local operating idiosyncrasies. However, for Interbancos to provide truly interoperable services to all Mozambique citizens, it would need to include key banks into its service offering, namely Millennium Bim, Banc ABC and Barclays Bank. Commercial considerations will likely prevent competing payments networks from consolidating and thereby providing true interoperability, as significant investment in competing capacity has already occurred, including the customization of standalone networks as a means of customer retention. The possibility of the banking industry buying out and consolidating competing network capacity to create a highly efficient industry capability is not likely given the relative size of the top institutions and the revival of the SIMO network concept by the BdM. Under-recovery of ATM encashment costs due to the effects of pricing regulation mitigates against attempts to leverage existing networks across a wider potential customer base as higher transaction values and volumes would likely exacerbate any under recovery and those entities with the largest networks would be worse off.

SIMO creates uncertainty, has not brought the interoperability horizon closer. SIMO has taken an exceedingly long time to become operational and has created uncertainty in the market. While full SIMO implementation would technically create interoperability, the advent of SIMO would mean the expansion of uniform ATMs across the country, with fewer branding, customisation or service differentiation possibilities. There remains much uncertainty as to the timing and degree of impact on existing businesses and processes. This is particularly true with regards to customization of broader ATM and POS networks that have been built at cost by banks. Banks are unsure as to how service offerings would be accommodated in the future via a common platform. This is already impacting investment decisions in both devices, cards and customisation by the banks. Without certainty of the "risk" of SIMO, banks and Interbancos have limited incentive to invest in additional branches, POS devices and ATMs, or to innovate in new products and distribution channels.

Sub-optimal net settlement processes. The net settlement processes in place have a material manual component, in particular the cheque interbank settlement process, because cheques are settled only on physical acceptance of the instruments. At the time of writing, every

cheque was manually and individually confirmed. This results in inefficient and expensive processing, which requires more human resources than automated payment channels that use POS devices. The manual clearinghouse system also impacts POS systems, because POS transactions do not settle directly. This demonstrates a lack of trust between participants and the absence of a comprehensive framework for the containment of settlement and systemic risk. The holding over of an entire day's settlement, particularly concerning the cheque payment stream, not only poses significant risk to participants but also ties up the security of credit institutions in that institutions need to provide for the clearing totals in respect of cheques drawn on its customers but at the same time does not have access to the settlement value of cheques deposited by its customers drawn on other banks. The implication is that the value of one day's cheque clearing is perpetually inaccessible and un-intermediated by the entire banking industry. For consumers, this extends the timing and risk that they do not have confirmed value, while at macro level it has a direct impact on the velocity of money, turnover in the economy and, ultimately, GDP.

Structural constraints to electronic payments infrastructure reinforce use of physical instruments. In addition to the clearing house issues, the pervasiveness of cheques in both government and the private sector is also indicative of the systematic lack of trust or efficacy of electronic payment modalities such as POS, electronic low value credits and RTGS payments. Transitioning away from widespread use of cash and cheques can only be achieved with greater development of the electronic payments infrastructure.

POS devices and ATMs have low penetration and are unreliable. The analysis showed that POS devices and ATMs are rare in many parts the country and concentrated in urban centres. Where POSs and ATMs, are present, they are often unreliable. ATMs experience frequent network outages and are prone to run out of cash in some areas. These concerns cause people to withdraw their funds when the ATMs are operating so that they are not left without money. This is particularly true around payday, when many people withdraw as much of their funds as possible and thereby drain the machines of cash[226].

Lack of offline POS functionality. During the course of the supply-side interviews, most credit institutions indicated that they were predominantly issuing magnetic stripe debit cards without EMV or similar chip based functionality, but that most credit cards were EMV enabled. The business case for POS acquiring becomes much more difficult when faced with irregular power and inconsistent communication linkages. Card associations have designed various off-line authorisation modalities specifically for these types of conditions and can range from the more risky floor limits to offline chip-based authorisations. Lower customer processing times, higher certainty of being able to pay with POS and lower communication costs would improve the utility of POS transactions more in line with cash. With zero cash deposit fees and hence no opportunity gain in implementing POS, the business case for the merchant in terms of convenience and functionality would need to be that much stronger.

Prepaid card potential undermined by sub-optimal POS system. The emergence of pre-paid cards is a very positive step for financial inclusion as it provides many Mozambicans with their first step into appropriate financial services by providing people with their first exposure to card services. However, to maximize impact prepaid cards need to be able to use POS devices. Without access to POS devices, and without offline functionality, the use of these cards will

[226] From BFA, 2012. *Mapping the Retail Payment Systems in Malawi, Zimbabwe and Mozambique.* (pp25)

still be primarily limited to accessing physical cash via ATMs.

System unable to deal with new customers or more transactions at scale. Considering the capacity of the ATM network and the underutilisation of the POS payment channel, any major initiative or rollout of additional card based formal bank accounts or increase in per-account activity will in all likelihood result in further pressure on the system. This will result in even greater mailbox behaviour among bank account holders or in formal customers being lost to the cash economy. This constitutes a critical hurdle to the wider adoption of formal financial products.

Mobile money not yet reaching its full potential. Mobile money subscriptions have largely stalled in 2014 and usage is less than two transactions per subscriber per annum. It would thus appear that mobile money is struggling to compete with the pervasive cash-based ecosystem in the country. The role played by an incomplete regulatory foundation, and the uncertainty surrounding the content and timing of new legislation, was set out in **Section 3: Regulatory and Policy Environment** above. To that is added the following supply-side challenges:

- *Limited digital infrastructure ecosystem to facilitate encashment and retail payments*. The functionality of mobile money beyond person to person transfers and store of value is limited by the fact that there are not enough outlets, compared to cash, at which one can transact with mobile money, deposit and/or en-cash balances. The limited availability and lack of liquidity of MMO agents during peak periods has been raised as a reason to revert back to ordinary cash based remittances.
- *Limited interoperability based on closed loop loyalty strategies*. The interoperability challenges also extend to the mobile money market. The closed loop systems of the two mobile money providers prevent consumers from sending money to other network subscribers without creating a separate sub-account for the beneficiary on the closed loop system. This implies that the beneficiary must withdraw the entire value in cash from that MMO's agent. Recipients can therefore have up to three mobile money accounts for small value transfers requiring different agents for each transfer. With no interoperability at agent level the effective foot print of each MMO is limited. While Interbancos does allow for interoperability between mobile money offerings and payment channels such as ATM, POS and online transactions, such interoperability is currently limited to the electronic mobile wallets issued by Interbancos for its banking clients and it is currently still not directly interoperable with the two MMO closed loop systems.

In the Mozambican context mobile money will only have relevance and market acceptance if it is able to compete with the broader cash economy, both in terms of pricing and utility. It however remains an important longer term market development gateway to financial services for communities out of the reach of the formal banking system and for whom conventional banking configurations are either too costly or inappropriate.

An ecosystem problem

It all stacks up against electronic payments. All in all, then, the reliance on cash and cheques is an ecosystem problem: the whole payment system is essentially built on physical instruments – a position that is very difficult to unwind. The POS system has a low penetration and faces system inefficiencies. The ATM system faces considerable capacity constraints. The

high degree of functionality and interoperability presented by Interbancos is not leveraged throughout the financial system and innovations like the roll-out of prepaid cards are limited in functionality. The scale and complexity of integration between eighteen banks with different variations in their payments systems should not be underestimated, especially within one switching platform. The blockages to further growth, systemic risk, counterparty risk, and liquidity risk that currently undermine interoperability go to heart of the payment system and cannot be changed by a single player or in the short term.

A structural problem requires a structural solution. All of the above mean that people and businesses behave rationally to choose to transact in cash and with cheques. One cannot expect their behaviour to change without significant business model changes that impact on relative incentives for electronic vs. physical payment instruments. Significant structural reform and increased rollout is needed just to support current cardholders, let alone large-scale expansion in the client base. Balancing ATM infrastructure, POS deployment, new bank account and card roll-outs and customer usage patterns is a difficult conundrum with high risks. This, in the first instance, requires regulators to reconsider the framework for the sector and the ways in which incentives are shaped.

Box 20: Example of a structural intervention – the phasing out of cheques

Areas that are causing a blockage in the financial ecosystem, such as cheques, need to be addressed in order to increase cost-effectiveness of the entire payments system and hence its ability to facilitate lower value transactions. The way in which other clearing systems, internationally, have eliminated high cheque risk from AECHs and curtailed reliance on cheques is to impose minimum per item processing charges to be recovered from the banks and on-charged to clients. South Africa also successfully imposed maximum item limits according to which cheques over a determined value threshold, which posed too high a risk to the clearing house participants were initially rerouted to an RTGS system and after a transitional period no longer accepted for deposit.

In Mozambique higher value cheques could be prohibited by regulation, and the transactions re-routed through the MTR system in real time. Currently, most corporate transactions are conducted via cheques. A maximum item limit will encourage a higher level of adoption of corporate EFT transaction processing. Limiting the overall risk to clearing house participants will decrease the costs that participants would ultimately need to charge for that risk. To further curtail cheque use, regulators could increase interbank charges for cheques, and increase ad valorem charges for cheques (based on the value of the cheque).

A reduction in the number of instruments cleared would enable the beginning of a shift of resources towards electronic clearing in a positive cycle intended to ultimately decrease the administration load and operational costs within banks and hence the ability to operate at higher scale. Reducing costs associated with cheques will also free up capital for banks and increase the momentum of turnover which can in turn help increase the amount of capital available for more productive purposes.

6.2. Market for credit

Why focus on credit? When used for investments such as starting or growing a business, getting an education, or purchasing productive inputs, credit can help spur economic growth and employment. However, even good loans can turn bad if there is an economic downturn

or other circumstances impacting the borrower's economic position. Concerns can also arise regarding reckless lending, or poor financial decisions by the borrower. In addition, as is found in Mozambique, credit is also often used as a coping mechanism for things such as risk mitigation or consumption smoothing.

With these considerations in mind, any credit expansion strategy needs to be realistic about the risk of over-extension or possible misuse of credit. While these risks cannot be avoided, an appropriate framework for developing the credit market can reduce possible negative impacts. Achieving this requires on-going management and monitoring along with a comprehensive view of the market. As a starting point, it is important to recognise that the credit market in Mozambique is relatively underdeveloped, but is starting to evolve and mature. While the market is dominated by a few institutions with primarily foreign or government ownership, smaller domestic providers are emerging and reaching more clients often served by the larger institutions. Leveraging opportunities to reach thinly served populations can help maintain development in the credit market. Simultaneously, shaping the ecosystem will help move the market towards more inclusive market development and better reaching excluded populations.

Despite a range of formal and informal providers, both formal and informal uptake of credit in Mozambique is low. The following section provides a detailed view of the Mozambican credit market, reviewing credit uptake, use of credit, products and providers, barriers to access and usage, as well as the gaps and opportunities expansion.

Key issues: market for credit

- Take-up of formal and informal credit low.
- Informal credit is more common than formal, and include some in-kind lending.
- Liquidity constraint in formal financial sector constrains availability of credit.
- Formal credit market dominated by four largest banks, which are focused on high value retail and corporate clients.
- Microbanks and microfinance focussed commercial banks are moving upstream to thinly served and unserved middle-income earners.
- Interest rates charged by formal institutions generally low, while informal credit tends to either have high interest rates or no interest.
- Lack of an effective credit bureau limits availability of customer information for formal lenders.
- Lack of proportionate regulations and supervision limit the reach of credit providers.
- Eligibility requirements have little variation across providers and create a barrier for many Mozambicans.
- Entrance of payroll lenders have limited reach, but have demonstrated the market opportunity of serving thinly served markets.
- Mobile money operators not currently offering credit, but are well positioned to reach excluded and thinly served markets, particularly if coupled with an expanded payments footprint.

6.2.1. Credit uptake

This section discusses the extent to which Mozambicans use credit, and from which various sources.

Overall take-up of credit extremely low. As shown in **Figure 73**, below, about 90% of Mozambican adults do not access credit, whether formal or informal. This is a high compared to regional peers, such as Uganda (45% exclusion, 2009), Zimbabwe (51%, 2011), Zambia (55%, 2009), and Swaziland (32.9%, 2011).[227] This also shows only a slight improvement in Mozambique from 2009, when 92% of adults lacked access to credit. Urban areas, where 12% of adults access credit, fare only somewhat better than rural areas where 9% of adults access credit. However, the difference in take-up of *bank* credit is more substantial, with 9% in urban areas accessing bank credit compared to 3% in rural areas.

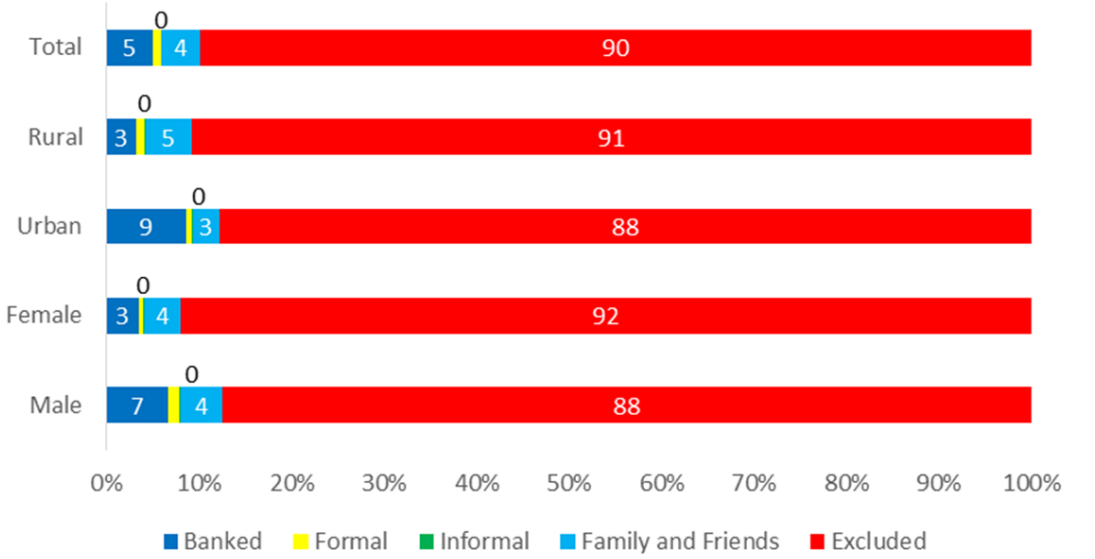


Figure 73: Overall credit uptake

Source: FinScope (2014)

Increase in Mozambicans accessing banks for credit, but take-up dominated by government workers. While the total percentage of adults in Mozambique accessing credit remains low, access to bank credit has increased noticeably from 1% in 2009 to 5% in 2014. Government workers, 41% of whom access bank credit, have much greater access to bank credit than all other target markets. This increased substantially from 2009 when only 9% of government workers had credit from a bank. All other target markets have minimal credit take-up compared to government workers. Salaried workers, who have the second highest rate take-up, show only 11% use of bank credit. This is despite that fact that salaried and government workers have relatively similar profiles, as they are of similar size (salaried workers comprise 4.8% of the population, government workers 4.4%), both are primarily urban, and both tend to have higher incomes than most Mozambicans[228]. As discussed later in this section, the increased take-up of bank credit by government workers as compared to all other target markets is most likely due to the growth of payroll lending, which serves almost exclusively

[227] Figures from country FinScopes, years indicated.
[228] Between the two groups, government workers have higher incomes than private sector salaried workers.

this target market. Take-up of bank credit by microenterprises increased from 2% to 6%, while all other target markets increased only marginally with take-up still remaining at 2% or less.

Family and friends common source of informal credit. As shown below in **Figure 70**, all target markets access credit from family and friends. At 8% take-up, *biscato* are most dependent on family and friends for credit compared to other target markets. For all other target markets, reliance on family and friends for credit ranges from 3% to 5%. There are indications that family and friends often do not charge interest on loans, or even require repayment. However, creating some ambiguity, "*agiotas*" who do require repayment and charge interest, may sometimes be identified as "family and friends". This will be explored in more detail in the provider discussion below.

Indications of widespread use of informal moneylenders. Keeping in mind the blurred line between "family and friends" and "*agiotas*", evidence does suggest widespread use of informal money lenders. FinScope 2014 found that 6% of respondents had used *agiotas* at some point in the past[229], while the FinScope MSME 2012 survey found that 19% of MSME's had borrowed from *agiotas*[230]. Further supporting the FinScope data, qualitative research and industry consultations found that *agiotas* were widespread and frequently used for credit.

Dependants and farmers most excluded. As shown in **Figure 74**, all target markets show high rates of exclusion from credit, regardless of the credit source. Dependents and farmers are the most excluded at 95% and 92% respectively. Farmers, then, despite being the largest target market (32% of the population) are among the least served. Only 5% of farmers access credit from family and friends, and about 3% access formal credit (with bank and non-bank formal credit combined). As discussed **in Section 2: Context drivers of market development**, this resonates with the low total percentage of formal credit allocated to agriculture, which constitutes only 3.5% of the total loan portfolio in Mozambique. Similarly, as discussed in the provider discussion below, this may also stem from lender perceptions that farmers are high credit risks.

[229] FinScope 2014 did not ask the respondent how recently they had used the money lender.
[230] See the FinScope MSME Brochure at: http://www.finmark.org.za/publication/finscope-mozambique-msme-2012-survey

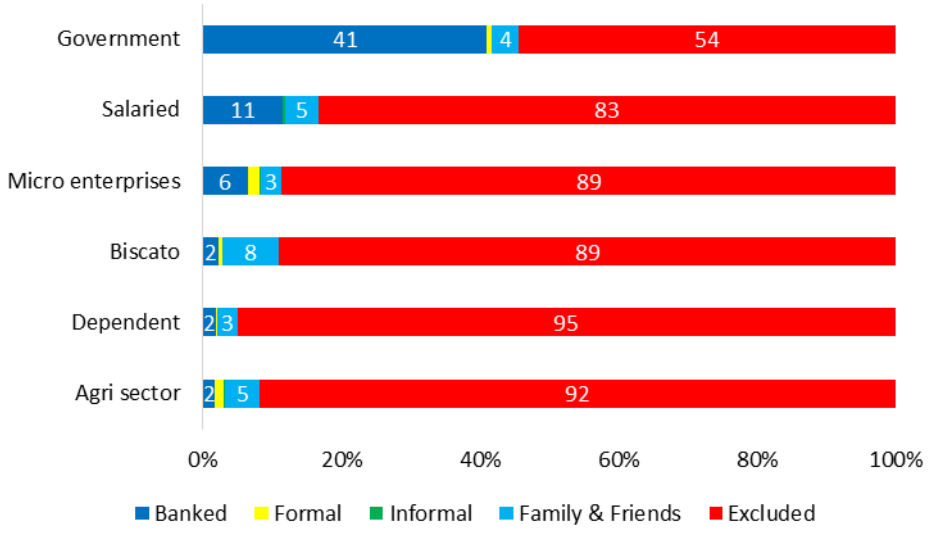


Figure 74: Credit uptake by target market

Source: Finscope (2014)

Banks not adequately meeting credit needs of existing customers. A large portion of informal take-up is by those who are already financially included. Looking across all credit users[231], 88% already have access to a bank for at least one formal product. However, 49% of all credit users use at least one product from both a formal and informal providers. In contrast, only 6% of total borrowers are served only by an informal provider and have no access to a bank product. This suggests that banks are not adequately serving the credit needs of existing customers. As will be discussed later in this section and again in **Section 6.2**, it is very likely that many customers use banks for various types of deposits or transactions, but either cannot or do not wish to also get credit from a bank.

Liquidity constraints limit available capital for lending. As discussed in **Section 5: Financial sector overview**, and **Section 6.1: Market for payments**, there are several factors contributing the constrained liquidity throughout the Mozambican formal financial sector. The two main contributors to capital constraint are challenges facing the payments system, and activities surrounding the megaprojects.

- Limitations in the footprint and interoperability of the payments system are the other main contributing factors to liquidity constraint. With an insufficient footprint of ATMs and POS devices, combined with interoperability causing electronic funds transfers to be delayed or costly, target markets as well as large banks and corporations lack incentive to move away from physical cash or cheque transactions. For example, banks generally settle accounts using physical cheques, which takes a couple of days to process and ties up capital in the meantime. Similarly, Petromoc the majority of customers primarily receives cash payments for deliveries to petrol stations. That cash must then be driven by the truck drivers to the nearest bank branch or Petromoc depot for deposit. Petromoc customers will then proceed to make purchases in cash, and the cycle repeats with cash moving back and forth between petrol stations and urban centres. This physically ties up capital which could otherwise

[231] Where credit users are defined as those that make use of banked, formal or informal credit.

be available to ease constraints.

- The megaprojects, although themselves funded by foreign sources, spur more demand for petrol than can currently be supplied domestically. Consequently, the majority of commercial banks in Mozambique syndicate and commit large amounts of capital to finance petrol imports. In order to facilitate these imports, banks keep large amounts of capital offshore in foreign currency. In addition, banks extend credit for ancillary initiatives, such as road work, which service the megaprojects.

6.2.2. Use cases

This section reviews the purposes for which credit is most commonly used by Mozambicans.

Risk mitigation a primary use of credit. The main uses of credit are summarised in **Figure 75** below. FinScope 2014 found that the leading use of credit, as reported by 41% of those with credit, is for non-medical emergencies. All target markets used credit for this purpose. Of those with credit, dependents and salaried workers are at the high end (44% each), and government workers at the low end (29%). Based on risk perceptions (as discussed in **Section 6.4: Market for insurance**), it is likely that non-medical emergencies include events such as loss of a harvest (reported by 49% of total respondents, and not only farmers, as a main risk), theft, fire or damage to property (49%), or flood damage (34%)[232].

Medical expenses, whether planned or emergencies, were also identified as major reasons for using credit (by 18% of borrowers). Salaried and government workers reported the lowest usage of credit for medical related expenses (11% and 10% respectively), which is likely due to these target markets, as compared to most Mozambicans, having higher average incomes and therefore being better positioned to meet these expenses. Dependents have the highest usage of credit for medical expenses (28% of dependents with credit). Qualitative research also found this to be a common use of credit.

[232] 66% of agricultural workers reported fear of a bad harvest, compared to only 25% of salaried workers, whilst damage to property was the highest concern (61%) for government workers, whilst being much less relevant for dependents (28%). Job loss is a relatively small risk to farmers (15%) compared to government workers and salaried (24% and 33% respectively). The aggregate statistics discussed here mask finer nuances by target market.

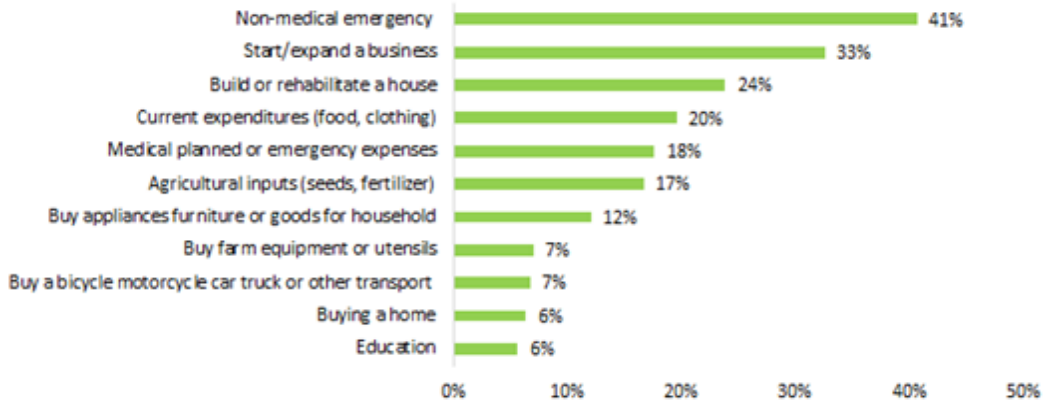


Figure 75: Main uses of credit

Source: Finscope (2014)

Credit used for consumption smoothing, including some in-kind lending, dominated by lower income target markets. Lower income, largely excluded target markets are most likely to use credit for purchasing necessities such as food and clothing[233]. Leading this trend is dependents, for those of which have credit, 28% use it for consumption smoothing. This is followed by *biscato* (27%), farmers (23%), and micro-enterprises (17%). Qualitative research also found consumption smoothing and meeting basic necessities to be a main need. It was also reported that food is sometimes lent or bought on credit. However, in at least some of these instances, either interest is not charged or repayment is not expected. Where repayment is not expected, lending likely serves to build relationships and a social safety-net.

Use of credit for investing in house common among all target markets. Borrowers from all target markets use credit for building or improving a house. This emphasises the importance placed on homes as a long-term investment, and an inclination to plan for the future. Across most target markets, a similar proportion of adults with credit used the loan for this purpose (clustering near 20%, with 22% of farmers, 22% of *biscato*, 17% of dependents, and 17% of microenterprises). Among both government and salaried workers, those with credit showed higher use of credit for this this purpose as compared to other target markets (38% of government workers with credit, and 27% for salaried workers with credit).

Business loans used by most target markets, but overall low take-up. According to FinSope 2014, overall use of credit to start or expand a business has increased from 12.5% in 2009 to 33% in 2014[234]. As would be expected, microenterprises are the main users of credit for starting or expanding a business, as reported by 88% of microenterprises with credit. However, although less-so than microenterprises, other target markets also show noticeable use of credit for starting or expanding a business. Of farmers with credit, 28% used credit for such business purposes, as did 47% of dependents, and 36% of *biscato*. Salaried and government workers were the lowest users of credit for starting or expanding a business at 9% and 4%, respectively (FinScope 2014).

This resonates with the MSME survey, which looks at business activity across different

[233] As other researchers have shown, "consumption, production, and investment are inseparable," as consumption may be necessary in order to enable someone to work and therefore be productive (source: http://www.ifpri.org/sites/default/files/publications/mp05_brief.pdf (Zeller 2000))
[234] Percentages are of those who are using credit.

economic sectors. While those involved in wholesale and retail are the main users of business loans (44% of MSME borrowers), those involved in farming also represent a significant proportion of users (22%).

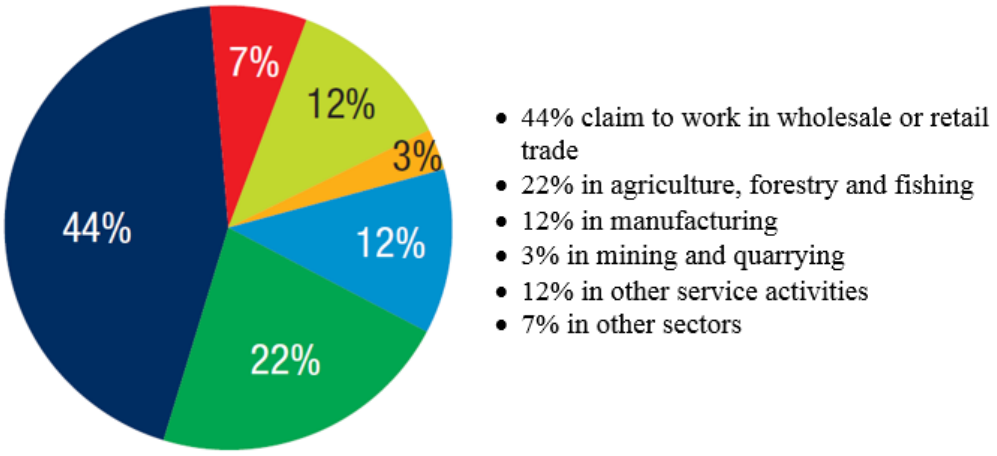


Figure 76 MSME activity spans multiple sectors

Source: FinScope MSME 2012

Credit for agricultural inputs has increased, but not dominated by farmers. **Figure 77** shows that the use of credit for agricultural inputs has jumped significantly since 2009. The use of credit for seeds, fertiliser, fishing nets, and other lower value inputs has increased from 3.3% of total credit users, to 17%. Use of credit for purchasing higher value inputs such as farming equipment or implements has increased from 1.3% to 7%, and credit for the purchase of livestock has increased from 0.5% to 3%.

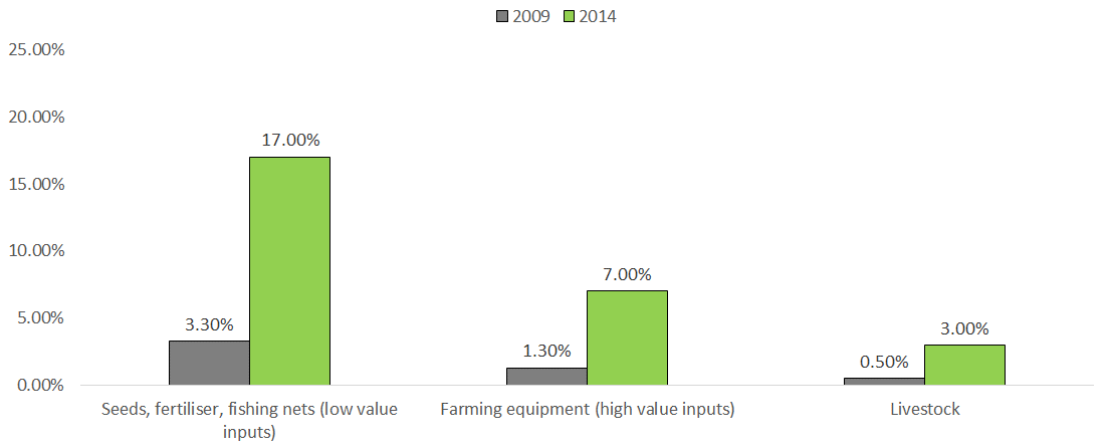


Figure 77: Percentage of adults reporting to use credit for various agricultural activities (2009 – 2014)

Source: FinScope 2009 and FinScope 2014

However, this usage is not dominated by farmers. Summarised in **Table 18,** the usage of credit for agricultural inputs by other target markets gives some indication as to their level of involvement in farming, presumably as a secondary source of income. Of those borrowing,

farmers and *biscato* show very similar use of credit for lower cost inputs such as seed, fertilizer, nets, and boats (30% and 27% respectively). Among those with credit, this was used for higher value inputs such as farm equipment by 13% of farmers, 10% of salaried workers, and 9% micro-enterprises. Ranging from 4% to 5%, the percentage of borrowers using credit for livestock is similar for microenterprises, government workers, and farmers. Farmers, then, compete with other target markets for agricultural credit. This likely stems from the fact that farmers, as compared to other target markets, tend to be (a) lower income earners, (b) primarily rural and therefore physically out of reach of many formal and informal providers, and (c) often identified by formal providers as high credit risks (see provider discussion below).

Target Market	Low value inputs	High value inputs	Cattle
Farmers	30% (103,000)	13% (46,000)	4% (14,000)
Biscatos	27% (35,000)		
Salaried workers		10% (7,000)	
Microentrepreneurs		9% (15,000)	5% (8,600)
Government workers			5% (11,000)

Table 18: For those with credit, use of credit for agricultural inputs by target market

Source: FinScope (2014)

Loans for household goods dominated by formal sector employees. Of salaried and government workers with credit, 37% and 23% respectively use their loans for household goods such as appliances or furniture. This significantly exceeds such usage by other target markets. At 2%, farmers with credit use this for household goods, while usage by the remaining target markets ranges from 9% to 12%. This may reflect that salaried and government workers have higher incomes and therefore are in a better position to finance the purchase of luxury items. In addition, as formal sector workers these groups are better able to meet eligibility requirements needed for formal asset finance.

Loans for vehicles dominated by formal sector and microentrepreneurs. For purchasing vehicles such as bicycles, motorcycles, cars, or trucks, salaried workers are the heaviest uses of credit, with 26% of those with credit using it to this end. This is followed by microentrepreneurs at 18%, and government workers at 12%. For salaried and government workers, these may be luxury items. However, given that microentrepreneurs tend to earn lower incomes than government and salaried workers, it is possible that vehicles purchased by this target market are considered productive inputs for their businesses. Supporting this notion, industry consultations also revealed that many microentrepreneurs use bicycles to move and sell goods.

Little use of credit for education, despite this being a top priority. Although education was frequently identified as a top priority during qualitative research, of total adults with credit only 6% used it for school fees or other education related expenses. By comparison, in neighbouring countries such as Swaziland where education was also identified as a top priority, use of credit for education is much higher at 27% (FinScope 2011). Of borrowers in Mozambique, salaried workers show the highest use of credit for education at 18%. This may reflect the fact that salaried workers have comparatively higher incomes than most and can

therefore afford such loans. In addition, salaried workers are primarily urban and are therefore in better proximity of schools and universities. Also relatively high compared to other target markets, of dependents who borrow 15% do so for education expenses. This might be an indication that some dependents are linked to higher income earners who can either provider or help access a loan. Lower-income and excluded target markets tend not to be significant users of credit for education. This is also true of government workers, however this may reflect that this market earns sufficient income to pay for education without borrowing[235].

6.2.3. Providers

Diverse forms of credit providers, but limited regulatory proportionality. As shown in the institutional landscape overview in **Section 5.1**, Mozambique has engineered multiple categories of credit providers. Broadly, regulations allow for entities that are subject to varying degrees of regulation and supervisions. However, in practice the different tiers of credit providers is not accompanied by proportionate regulation or supervision. For example, microbanks are subject to the same prudential, KYC, branching and other regulatory requirements as commercial banks. The array of provider categories does not, therefore, translate into actual diversity of providers. In practice, as providers grow they tend to migrate to higher tiered licenses. For example, some providers started as microbanks but are now licensed as commercial banks even though they maintain a focus on microfinance. In some instances, it is not always immediately clear what type of license a provider holds[236]. The categories, and number of licenses, for each category are provided in Table 19. According to industry consultations, the 'microcredit operator' category is constituted by *agiotas* who have formally registered. While the number of licenses in this category is substantially higher than all other categories, and appears to be growing, no specific providers in this category could be identified during research. This is likely because, as former *agiotas*, these providers likely serve a relatively small and localised client base.

[235] For an overview of the educational profile of the various target markets, see **Section 3.1: Target market analysis**

[236] For purposes of this diagnostic, institutions were categorized according to information available about their licenses at the time of research. As some entities indicated that they intended to acquire higher tiered licenses, it is possible that some providers have shifted to different regulatory categories.

	Provider Category	Permissible Activity			Number of licenses			
		Deposit Taking		Credit provision				
		From the public	Intermediate Deposits	To the public	2011	2012	2013	
Credit Institutions	**Credit Institutions**							Subject to Prudential Supervision
	Commercial Banks	Yes	Yes	Yes	18	18	18	
	Electronic currency institutions	Yes, with Approval	Yes, with Approval	No	1	1	2	
	Issuers or Management Companies Credit Card	No	No	Yes	1	1	2	
	Microbanks							
	Savings bank	Yes	Yes	Yes	8	8	10	
	Credit Cooperatives	Members only	Yes	Members Only	7	7	8	Subject to Monitoring
	Savings & Credit Organizations	Members only	Yes	Yes	10	11	12	
	Other Institutions							
	Microcredit Operators	No	No	Yes	166	199	233	

Table 19: Regulatory categories for credit providers

Credit market dominated by three big banks, which focus primarily on high-value clients. The credit market is dominated by the three largest commercial banks, which together account for 79% of total credit by value. In comparison, all microbanks combined provide only 3% of total credit (BdM Annual Report 2013). In 2012, the two largest banks, Millennium BIM and BCI, held a combined loan book of USD 4.2 billion, which significantly outweighed the combined loan book of all remaining banks at USD 624 million (BdM Annual Report, 2012). This concentration of credit is illustrated in **Figure 74**, below, which looks at the total loan books for the three largest banks, two microfinance focussed commercial banks, one credit cooperative, and one payroll lender. Although not a comparison of all providers, this shows how the large banks dominate over the smaller providers.

Success of payroll lenders highlights unmet demand of thinly served. As mentioned above, **Figure 74** illustrates the concentration of credit in the three largest banks. However, this figure also captures the potential and opportunity for reaching thinly served markets. Letshego, a payroll lender technically licensed as a microbank, has shown significant growth in recent years. In its first two years of operations, Letshego had become the ninth largest credit provider (by total loan book), passing smaller commercial banks. And yet, Letshego serves comaparatively a much smaller client base. This demonstrates the opportunity of reaching unmet demand of thinly served markets.

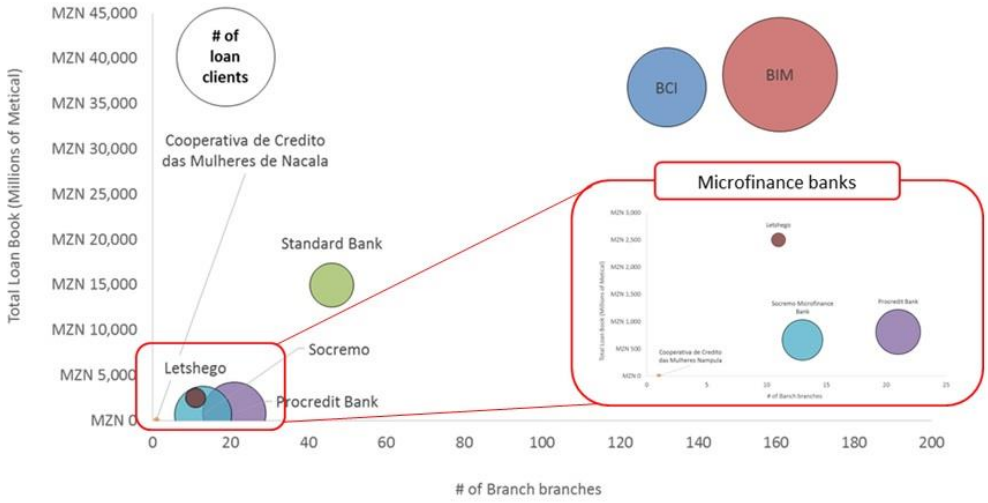


Figure 74:Total loan book, number of branches and number of clients

Microbanks and microfinance focussed commercial banks moving upstream. With the largest commercial banks pursuing higher-value corporate and individual credit opportunities, many Mozambicans who are already financially included are nonetheless unable to meet their credit needs. Therefore, despite having the highest access to banks and the highest average incomes compared to other target markets, salaried and government workers remain thinly served. Simultaneously, most excluded populations are unable to overcome proximity, eligibility, trust and other barriers to accessing credit from microbanks or microfinance focussed banks. Smaller providers, then, must find different market opportunities and are consequently moving upstream to meet the needs of thinly served salaried and government workers. This was also reflected in the aspirations of some microbanks and cooperatives, which shared their intentions to move to higher-tiered credit institution licenses. As mentioned previously, this pattern has already been observed with four commercial banks which started as microbanks and progressed upwards (Procredito, Socremo, Oportunidade and Tchuma).

Commercial Banks

Dominant banks not focused on low income retail market. Larger banks focus on high value corporate and retail clients. During industry consultations, this came through explicitly by multiple large banks who stated that they do not see lower income markets as realistic business opportunities. This was further reflected in the high minimum income requirements (often ranging from MZN 14 000 to MZN 50 000 annually) attached to many credit products offered by these same banks. Such requirements are unattainable for the overwhelming majority of Mozambicans, 42% of whom earn less than MZN 5 000 annually (FinScope 2009)[237].

Capital constraints drive thinly served markets to seek alternative sources of credit. The top four banks tie up most of their loans in petrol imports and foreign exchange, while the remaining larger banks are largely focused on corporate lending. These three lines of business are highly profitable and are not as vulnerable to operational constraints, such as lack of

[237] It should be noted that 18% indicated that they do not know what their total yearly income is whilst 6% indicated that they do not wish to disclose their income. Therefore, only 34% of Mozambicans earn more than 5000 meticais a year.

human resources and physical infrastructure deficiencies, which discourage retail operations. With credit scarce, large providers focus most of their efforts on higher income corporate and retail customers. Consequently, there is little credit available for on-lending to smaller institutions, and little incentive to provide MSME or retail credit to middle or lower income customers.[238] Even higher income individuals experience delays in getting loans approved or received, and many therefore seek alternative sources of credit. At the same time, as large banks struggle to meet the needs of their deposit clients, these individuals are moving increasingly moving towards microbanks, microfinance focussed banks and more recently payroll lenders.

Microbanks and microfinance focussed commercial banks.

Microfinance focussed providers

Although microfinance focussed commercial banks are licensed as commercial banks, the challenges they face and the clients they seek to serve are more akin to those of microbanks. Therefore, these are discussed together here.

Thinly served market moving towards microfinance focussed providers for credit. Capital constraints and the focus of large banks on high income customers drives thinly served salaried and government workers to microbanks and microfinance focussed banks that are traditionally focussed on lower-income customers. Illustrating this, one microbank reported that 60% of its borrowers already have access to another bank and earn on average MZN 20 000 per month, while another microfinance focussed provider offers average loans of MZN 25 000.

Microbanks and microfinance focussed banks struggle to compete. While many salaried and government workers turn to microfinance focussed banks for credit, these same clients tend to still keep their deposits with the larger banks. In addition, many clients put their money into growing their business or other activities, and therefore do not have much surplus for deposits. During industry consultations, providers explained that there are not enough deposits available in Mozambique to fund credit growth. In one example, a microfinance focussed bank held deposits of only 2.2% of its loan book[239]. Contributing to this challenge, microbanks and microfinance focussed providers are starting to lose clients to the new payroll lenders, as well as the FDD program. Because of costs and other challenges, most providers cannot compete with payroll lenders on interest rates and convenience. And, in part due to low repayment rates, the FDD program has attracted many borrowers that may have otherwise gone to a microbank. Industry consultations found that smaller providers tend not to target district where the FDD program is more active. These realities limit the ability of microfinance focussed banks and microbanks to sufficiently meet the demand for credit.

Microbanks and microfinance focussed banks find it costly to serve customers. Whereas large banks, such as BIM and BCI, can provide credit to formal sector workers without follow up, microfinance focussed banks are more dependent on lower-value loans and must ensure a borrower is reliable. According to industry consultations, this often requires the smaller providers to visit a potential customer's home, assess collateral, and secure references. This

[238] For microcredit operators and cooperatives to operate, they often need a line of credit from larger banks. However, credit can be difficult to acquire, in part due to liquidity constraints of the lenders (CCOM interview, 11-12-2013; Letshego interview).
[239] Since the time of research, it has been reported that this provider has been bought out.

drives up costs for these providers, as compared to the larger banks. With the entry of payroll lenders, such costs make it even more difficult to compete for customers.

Payroll lenders

Payroll lenders also fall under the microbank license category. However, their business models and rapid growth set them aside from the rest of providers in this category.

Recent entry, rapid growth. The two leading payroll lenders in the market, Letshego (which entered the market in 2011) and BayPort (which entered in late 2012 and became operational in 2013) have been rapidly increasing their footprint and loan portfolios. After only two years in operation, Letshego had grown to have approximately 35 000 clients and a loan portfolio of MZN 2.5 billion.

Regulatory burden similar to that of commercial banks. Both payroll lenders entered the market as credit institutions, by taking the highest tier of microbank licence available. Letshego obtained a licence by buying an existing operation. A major benefit of being registered as a credit institution is that these lenders can also access the payment system, which can be leveraged for business expansion. However, even while note taking deposits, the compliance burden for payroll lenders is similar to that of commercial banks (for example, bank branch regulations).

Currently focussed only on government workers. The payroll lenders currently only serve government workers. Letshego is focussed on reaching civil servants in urban markets, while Bayport has sought to reach the rural civil servant market but due to the challenges associated with this (for example, shortages of skilled staff in rural areas) has migrated somewhat towards towns. Even though Letshego was able to grow its portfolio to MZN 2.5 billion, the payroll lenders indicated that there is still substantial scope for expansion amongst government workers.

Hurdles still remain for payroll lenders to reach private sector salaried workers. A primary factor is that few private employers have systems to run centralised payroll operations. Adding additional risk, private sector salaried workers have higher turnover compared to workers in the government sector, which makes it more difficult to keep track of borrowers. In addition, lenders can check the government staff database to verify if a loan applicant does, in fact, work for the government, and lenders can also require a tax number to verify when the person might retire. For private sector workers, there is no centralised database with sufficient customer information. Consequently, government workers are lower risk borrowers, and payroll lenders are likely to remain focused on this market in the near-term.

Payroll lenders reaching thinly served. All payroll clients receive their pay through direct deposit into existing bank accounts. The vast majority of these are held with the two largest banks (BIM and BCI). For example, the interview with Bayport indicated that up to 90% of its clients have accounts with Millenium BIM. However, as discussed previously, customers of the largest banks struggle to access loans from these banks.

Incentive to expand client portfolio. Payroll lenders are well positioned to expand their product portfolio and client base. As payroll lenders are registered as credit institutions, they may be able expand their product portfolio to include deposit-taking without substantial additional

regulatory burden. This would strengthen their relationship with existing clients, and also allow deposit-taking from a broader client base. Further, by developing such a capital base, payroll lenders would be enabled to offer additional services such as on-lending. It was not clear why payroll lenders do not offer payroll deduction services for private sector employers that lack the necessary systems. However, it could simply be that payroll lenders still see room to grow within the government worker target market.

Limited sources of domestic funding add to incentives for deposit-taking. Both payroll lenders are funding their portfolio largely from head-office capital with some wholesale lending from domestic banks. The dependence on foreign currency denominated head-office funding is not sustainable (as funds may be shifted to other operations) and also risky (as result of foreign exchange movements). Head-office funding is in the form of equity (to meet regulatory capital requirements) and stakeholder loans. Permission from BdM is required for any changes in stakeholder loans, which exposes the head office if restrictions are imposed on the flow of capital in and out of the country. Dependence on domestic wholesale funding is also risky. In the absence of a domestic capital market, payroll lenders obtain wholesale loans from banks, who are also there competitors. This position could be used against them if competition intensifies. As result, both lenders are exploring options to diversify their sources of funding.

Electronic money institutions (MMOs)

MMOs licensed as credit institutions, but not offering credit. In order for mobile phone companies to offer money transfer services, they must be registered as credit institutions. However, they are most commonly used for purchasing airtime and do not provide credit or other financial services beyond money transfers. Plans for expanding financial services tend to focus on partnerships with larger financial institutions that can help expand mobile wallets. This has allowed exploration of mobile disbursement and repayment of loans (see product section below). A detailed discussion of the mobile payments landscape and opportunities is included in **Section 6.1: Market for payments.**

Fundo Distrital de Desenvolvimento (FDD)

Government initiative intended to provide productive credit. The FDD initiative forms part of the government's PERPU (Strategic Programme for Urban Poverty Reduction) programme. Launched in 2006 and driven by the Ministry of Planning and Development (MPD), the fund was established to provide MZN 7 million to each of Mozambique's 128 districts per annum to support employment generation and food production. In part, this means providing credit to residents in rural areas who would not otherwise have access to financing[240]. Some reports claim take-up of FDD loans to be as high as 1.3 million people. However, FinScope 2014 found that less than 1% of adults accessed FDD loans.

Indications that FDD loans used for productive purposes. Qualitative fieldwork found that respondents were often aware of the FDD program. Some rural microentrepreneurs had received loans through this program, and in Maputo City it was also found that market traders have benefited from the FDD loans to improve their businesses. In Niassa, there were encouraging reports of the loans being used for productive purposes such as extension of cultivation areas, increased agricultural mechanisation, as well as things such as income

[240] Centro de Integridade Publica Mocambique, O Distrito como Polo de Desenvolvimento: Um Olhar da Sociedade Civil Monitoria do Orçamento e Rastreio da Despesa Pública de 2011

smoothing and improvements in family housing.

Despite productive uses, loans have low repayment rate. The FDD initiative was intended to rely on loan repayments to replenish funds for continued lending. However, despite some demonstrated use of the FDD loans for productive inputs, repayment rates are reported to be extremely low. While repayment rates differ across provinces and districts, indications are that most beneficiaries default[241]. For example, the province of Niassa received MZN 922.5 million between 2006 and 2013, but according to the provincial Governor only MZN 48.5 million, or about 5%, was repaid[242]. A study by the Institute of Social and Economic Studies (IESE, 2012) claims that nationally the repayment rate may be as low as 3%[243]. Low repayment rates were further substantiated during stakeholder interviews, where it was also believed that repayment was approximately 5%. Consequently, the GoM has had to inject approximately USD 10 million per year to sustain this initiative[244].

Concerns raised over irregularities in administration. A *Centro de Integridade Pública* (CIP) document (2011) finds that many formal requirements that are part of the loan application and administration process are not properly followed. For example, only 15% of the projects analysed had a binding contract between the two parties. Of those with contracts, 16% of applications did not have the signature of the *Presidente do Conselho Consultivo Distrital* (the district leader), 64% failed to have the loan applicant's signature, and 20% did not have either signature. Of the projects that the study examined, 75% of the loan processes did not contain a credit amortisation plan. And while a description of the proposed project is supposed to be submitted with the application, 40% lacked such a description and many did not even include a loan amount. Aside from contractual issues, some localities did not have access to funds due to a lack of disbursement from the government. The study also found that District Secretariats were using cheques to disburse funds, even though disbursements are supposed to be made into a bank account. Often, when loans were sent to a bank account, they were not sent to bank accounts held in the name of the beneficiary, but rather to the beneficiary's *Chefes das Localidades* (local community leader) who was then expected to distribute the funds to the beneficiary. Such distribution through local community leaders was substantiated during the qualitative fieldwork. In addition, there are reports that higher than permitted interest rates have been charged[245].

Some confusion about FDD loans found during individual interviews. Although many qualitative research respondents were aware of the FDD program, many were not sure how the program worked or how to get a loan. One respondent was of the understanding that the loans were only available for public sector workers. Another respondent applied for a loan, which required submitting a business plan and paying MZN 240 for personal taxes and MZN 280 for the application fee. However, at the time of the interview, he had not received notice as to whether his application had been approved, and he did not understand why there was a delay. Yet another respondent felt he would not be able to repay an FDD loan because his main source of income, fishing, was not profitable enough. He based this belief partly on the

[241] See IESE publication (2012), Moçambique: Descentralizar O Centralismo? Economia Política, Recursos E Resultados, section 2.1. Available at: http://www.iese.ac.mz/lib/publication/livros/Descent/IESE_Decentralizacao_2.1.IniCond.pdf
[242] Article: http://macua.blogs.com/moambique_para_todos/2014/03/reembolso-dos-7-milh%C3%B5es-quase-nulo-no-niassa.html
[243] See IESE publication (2012), Moçambique: Descentralizar O Centralismo? Economia Política, Recursos E Resultados, section 2.1. Available at: http://www.iese.ac.mz/lib/publication/livros/Descent/IESE_Decentralizacao_2.1.IniCond.pdf
[244] IESE (2012)
[245] CIP (2011)

experience of an acquaintance who could not repay the loan.

Donor and development funding

AgDevCo a specialised lender focussed on agricultural development. The Agricultural Development Fund (a social impact investor and agribusiness project developer backstopped by private and donor funding) provides capital that incorporates agricultural technical assistance for those farmers that are viewed as small businesses and can demonstrate commercial sustainability (for example, those with an annual turnover of USD 250 000)[246]. While meeting these criteria might not be possible for most of the agricultural sector, this does provide a source of credit for farmers with larger operations, but who might not otherwise have access to a loan from a commercial bank.

Donor funded initiatives. Mozambique has seen many other donor funded credit programs. For example, KfW partnered with a bank to help promote credit to underserved groups. Under the program, KfW guaranteed 50% of the loan, and the bank carried the other risk of the other 50%. The consultations indicated that the IFC has entered into similar arrangements with banks to promote MSME credit. Similarly, AMOMIF was establish with support from GIZ to provide training and support for MFIs.

Microcredit operators

Though high in number, microcredit operators play minor role. On paper, microcredit operators appears substantial, growing from 166 to 233 in just three years (from 2011 to 2013). However, no measurable use of microcredit operators was picked up by FinScope. Industry consultations indicate that these providers are *agiotas* who have chosen to formally register, and possibly a handful of small MFIs. According to their license category, microcredit operators are not permitted to take deposits, which limits their ability to grow. Nonetheless, this category can serve as a means of legitimising the informal credit mechanisms frequently used by excluded and thinly served populations.

Savings and credit groups

Mozambique's tiered regulatory categories allow for 'credit cooperatives', as well as 'savings and credit associations'. However, in practice the distinction is difficult to discern, and indeed both categories include savings and credit groups. As the focus and services between the two tend to be quite similar, they are discussed together here.

Cooperatives have limited market penetration. CCOM, one the largest savings and credit organisations (OPE) in Mozambique, was an association of several cooperatives until it was restructured through a partnership between a donor agency (French Development Agency, AFD) and a multi-ministry steering committee of the Mozambican government. In the future, CCOM anticipates becoming licensed as the highest tier of microbank. Similarly, Banco Tchuma converted from being a cooperative into a commercial bank in 2008. However, although eight cooperatives are registered in Mozambique, FinScope 2014 did not find measurable take-up with these providers.

Cooperatives tend to focus on MSME loans. CCOM focuses on serving small and family

[246] See http://www.agdevco.com/what-is-patient-capital.php

businesses. Similarly, *Cooperativa de Credito das Mulheres Nampula* (which opened in 1994) and its sister organisation in Nacala (opened in 2009) have a focus on reaching women entrepreneurs. The Nampula cooperative has approximately 5 000 members while the Nacala one has 500 members. However, only about 10% of members borrow from the cooperatives, with total loan books of approximately USD 317 000 and 17 000 respectively.

Most accumulating savings and credit associations are informal. Some acumulating savings and credit associations (ASCAs) are registered with the BdM, as either credit cooperatives or savings and credit associations. However, the majority have not done so. ASCAs are estimated to have approximately 160 000 members spread across 5 000 groups in 89 rural districts. However, of those participating in a savings group, only 8% were members of an ASCA.

CARE model most successful ASCAs. FinScope (2014) found about 30% of members have borrowed from their informal savings groups. However, members of ASCAs borrow more frequently, as shown in a Care International report which found that 71% of ASCA members in Mozambique received loans from the group (under the Care model, ASCAs are referred to as VSLAs)[247]. This was high compared with other African countries, but lower than Tanzania and Zambia (93% and 85%) respectively. The report also indicated that as much as 10% of ASCAs have access to bank loans. ASCAs have on average 20 members, 70% of whom are women. While ASCA networks face organisational and funding challenges, they have shown some success in Mozambique for providing basic financial education in isolated rural communities. In addition, there have been instances in which ASCAs have been able to access formal financial institutions. For example, industry consultations indicated that a few microbanks offer products intended for groups, and one offers a loan product specifically for ASCAs. In addition, mobile money pilots have attempted to link ASCAs to mobile wallets, but the success of these efforts is unclear. There are indications that some ASCA are slowly transitioning to behave more like *xitiques* (see **Section 6.2** for further discussion about xitiques and savings).

Informal providers

Agiotas reportedly widespread, though not clearly identified. Both FinScope 2009 and 2014 picked up little evidence *agiotas* as a primary source of credit. FinScope 2009 found that about 2.2% of adults used *agiotas*, whereas FInScope 2014 found that 6% of respondents had previously received credit from *agiotas*. However, during industry consultations and qualitative fieldwork, there was a strong sense that *agiotas* were heavily used and readily available. As discussed in **Box 21**, below, the relationships between borrower and lender may blur the lines between *agiotas* and family and friends.

Agiotas preferred to banks, with trust as a major factor. During qualitative fieldwork, respondents indicated a preference for borrowing from *agiotas* rather than banks. *Agiotas* are readily accessible, provide borrowers with immediate credit, interest rates and terms are usually negotiable, and the loan application process is simple. When agiotas require collateral, they will assess whatever property the borrower identifies and if acceptable write up agreements between themselves. In addition, throughout the qualitative fieldwork people mentioned that it was important to borrow from those they trust. In the same way, *agiotas* also prefer to lend to those they trust.

[247] Care International, Microfinance in Africa State-of-the-Sector Report: Closing the Gap (2011)

Box 21: Relationship-based lending may blur line between "*agiotas*" and "family and friends"

During qualitative fieldwork, "Carmo", a 25 year old government worker in Maputo, described how she became a money lender.

After completing her degree, she secured a government job conducting research on community projects. This provides her with regular, relatively high income. As family and friends became aware of her good fortune, they began asking to borrow money. Seeing this as an opportunity to earn extra income, she started lending money to family and friends.

"Why not make money out of this? Why don't I sell my money?"

Within about 2 years, her client base had grown to include people recommended by her family and friends. Carmo now regularly serves 5-10 new clients per month. She will not lend to strangers, but will lend to new clients introduced by existing clients with whom she already has a relationship. Whereas a loan from a bank can take time for approval, Carmo provides loans quickly because, as she says, "I know and understand my clients". Other *agiotas* have shared similar stories, in which they start their credit business by lending to family and friends and their client base grows based on personal referrals.

Consequently, while it is true that Carmo and other *agiotas* maintain money lending businesses, it is also true that their clients are primarily family and friends. It is therefore not clear if someone like Carmo and similar *agiotas* would be identified by borrowers as "agiotas" or "family and friends".

At the same time, many respondents during the qualitative fieldwork mentioned that they had both borrowed from and lent money to family or neighbours. However, this did not appear to be a regular occurrence, and the loans were interest free and sometimes they were not expected to be repaid. Many loans, then, provided by family and friends are not intended for earning a profit. This creates further ambiguity with regards to those that report borrowing from "family and friends". Because of this nuance, it is not clear how many loans provided in the informal sector are interest bearing. Interest-free loans do not demonstrate a market for credit, but rather hint at social conventions that build, and rely on, human capital to create a social safety-net for times of need.

Limited use of xitiques for credit. During qualitative fieldwork, it was found that in addition to using formal credit providers, some salaried and government workers use longer-term *xitiques* (e.g. monthly or longer) to access credit. Many *xitique* members confirmed that while their *xitique* does not ordinarily offer loans, some *xitiques* will allow a member to take their turn early or provide a loan if the member is faced with an urgent expense. Often such advances or loans from the *xitiques* are not interest-bearing. Alternatively, an individual member within a *xitique* might offer a loan separately. Nonetheless, *xitiques* provide a forum to discuss financial needs and comfortably raise needs for a loan. However, lending is not a main function of *xitiques*. And while some smaller credit providers recognise *agiotas* as competition for credit markets, provider interviews suggest that they recognise the widespread use of *xitiques* but do not see them as competitors for credit.

> *"The xitiques will lend somebody money if they need it, sometimes it will be a member's own money, sometimes it will be money from the xitique"*
>
> Male, 30-40, Matola (Lawyer)

Credit Bureau

Credit bureau does not provide sufficient customer credit history. There is currently no private

credit bureau in Mozambique, though one does exist within the BdM. However, industry consultations found that the credit bureau does not provide lenders with sufficient information to assess a potential borrower's creditworthiness. Only negative customer data is recorded, which is based primarily on bounced cheques with almost no data on actual debt. Information is also not recorded on customer deposits, income or other indicators of total indebtedness. The data recorded, then, provides little basis to gauge the extent to which a customer is, or is not, actually indebted. In addition, information is only reported by commercial banks. However, debt with microbanks would not be accounted for. Although these shortcomings and the need for credit bureau reform were identified during industry consultations, it was also noted that regulatory reform is being considered to address some of the current concerns.

6.2.4. Products

Personal loans most prevalent. The types of credit products available to Mozambicans are discussed below. Personal loans are the most widely available types of loans, followed by MSME and agricultural loans. Availability of asset finance tends to be more limited and dominated by higher value products. **Annex B**: Personal loans, **Annex C**: Agricultural loans, and **Annex D**: MSME loans provide overviews of personal, agricultural and MSME loans provided by microproviders and the larger commercial banks. In practice, loans are often used for whatever purpose meets the borrower's needs regardless of how a product is structured or marketed. For example, personal loans are regularly used for MSME or farming inputs.

Across all product types and providers, eligibility criteria a major barrier. Eligibility criteria similar across loan types and providers. Many of these criteria, for example minimum income requirements, show that many loans are geared towards higher income customers. For most products, providers in both the commercial bank and microbank categories require one or a combination of:

- Proof of salary;
- Business plan;
- Business registration form;
- NUIT (tax document);
- At least one year of experience in a commercial field;
- Salary be received in the lending bank; or
- Three months bank statements.

These barriers cannot be overcome by most Mozambicans. For salaried and government workers without access to a bank account, only 14% receive a salary statement. For all other target markets, 1% or less receive salary through direct deposit.

Additional requirements and fees drive up cost of credit. As discussed **in Section 3: Regulatory and Policy Environment**, regulations limit many fees that credit institutions can charge customers. Consequently, there do not appear to be excessive fees attached to credit products. However, those fees that do exist can still create affordability challenges. A number of both larger banks and microproviders charge entrance or initiation fees that tend to be comparable in price, ranging from MZN 50 to MZN 200. However, such fees are less common with personal loans, as compared to other types of loans. In addition, there are sometimes compulsory savings or minimum balance requirements, which are generally MZN 50 or MZN

500. And in at least one instance, borrowers are required to contribute MZN 10 to MZN 20 monthly to a social fund. Many providers, both large and small, also require credit life insurance. It is not clear how the costs for this are incorporated or made explicit in the loan terms.

Credit allocated to agriculture not increasing. Although agriculture remains the main contributor to GDP, total allocation of credit to agriculture has declined from 20% in 2000 to 3.5% in 2013. From 2012 to 2013, the total amount of credit (by value) that went towards agriculture increased less than 1%. In comparison, the amount of credit put towards construction and mining increased 50% and 56% respectively. While agriculture still attract more credit in absolute terms as compared to other sectors, this trend shows that other industries are gaining importance at the expense of agriculture.

Personal loans

Varying loan sizes, interest rates and term lengths. As **Annex B**: **Personal loans**[248] indicates, loan sizes found on the market vary significantly, from a low of MZN 500 to MZN 450 000. There are several options on the market for loan sizes of MZN 5 000 or below. Interest rates likewise vary widely, depending on the type of provider and the term of the loan. The lowest identified is 1% per month, ranging to as much as 30% per month. This is comparable to *agiotas*, for which interest rate estimates ranged from 20% to 40% per month. Most microfinance focussed banks, however, charge below 10% per month, while most large commercial banks charge between 20% and 25% per annum. Terms vary from only one month to up to 60 months.

Minimum income requirements barrier for many Mozambicans. Many personal loans offered by the larger banks have high minimum income requirements exceeding that of most excluded individuals. For example, African Banking Corporation Mozambique, SA (BancABC) offers personal loans up to a maximum of MZN 450 000, but requires a minimum income of MZN 14 000. However, only government workers have an average monthly income comparable to this (approximately MZN 15 000). While there are higher income earners in other target markets, the average income for all other target markets is approximately MZN 7 000 or less. The majority of Mozambicans, then, cannot qualify for such a loan. Other minimum income requirements found in the market range from MZN 5 000 to as high as MZN 100 000. Some loans offered by microfinance focussed banks also have minimum income requirements, but these are less common and generally lower than the larger banks. For example, Banco Oportunidade De Moçambique offers personal loans ranging from MZN 500 to MZN 150 000, but imposes a minimum income requirement of MZN 5 000. This is also true of one of Banco Oportunidade's group loans, with a loan range of MZN 4 000 to MZN 70 000, but which also requires group members to have a minimum income of MZN 5 000 (it was not clear if this was required of each individual, or of the group as a whole). An MZN 5 000 threshold will be achievable for some Mozambicans, but still a challenge for most as the total average income in Mozambique is MZN 5 980. Salaried workers and micro-entrepreneurs (both with average monthly incomes above MZN 7 000), will be best suited to take advantage of these loans.

The table below is indicative of minimum income ranges required by different tiers of providers:

[248] All product matrices compiled based on an in-country product scan and supplier interviews.

Provider tier	Bank name	Loan size (in MZN)	Minimum monthly salary requirement (in MZN)
Commercial bank	BCI	Up to 80% of value requested	50 000
Commercial bank	Barclays	10 000 – 500 000	5 000
Microfinance focussed bank	Banco Oportunidade	1 500 – 150 000	5 000

Table 19: Comparison of minimum income requirements for loans

Source: consultations and data gathered from providers

A number of other eligibility criteria create access barrier. While not all providers, whether larger banks or microproviders, impose minimum income requirements, a range of other eligibility criteria still create barriers to access. At the time of research all providers were required to impose stringent KYC requirements. Other than proof of address requirements for KYC, other eligibility requirements common through all tiers of supervised providers include proof of formal employment, tax forms (NUIT), bank statements, or that salary be received in an account with the institution providing the loan. With rare exceptions, all providers had at least one or a combination of these requirements. In addition, even requirements that income be received into bank account can be a barrier for salaried workers and government workers, only 40% and 76% respectively of whom receive salary through direct deposit, and as discussed above even fewer receive salary statements (14% of formally employed).

Collateral often required by formal and informal providers. Most loans offered by the larger commercial banks require collateral. Common forms of collateral include physical goods, term deposits, or access to a third of the borrower's income. Some, though not most, of the microfinance focussed banks require collateral. For example, Socremo sometimes requires collateral, even if only something marginal. Often, a Socremo representative will visit a loan applicant's home to identify possible collateral, and also speak with neighbours in the community in order to verify the trustworthiness of the applicant. In comparison, while some *agiotas* require collateral, the majority lend based on a relationship and trust with the client.

Microproviders offer wide range of lower-value individual and group loans. Most, but not all, loans offered by microbanks and microfinance focussed banks require a minimum loan amount. Some start as low as MZN 500, which is reasonable based on loan sizes reported during qualitative fieldwork. However, a number of loans also start at MZN 5 000, which would likely push the limits of what most Mozambicans can afford. A few providers also offer group loans, though during industry consultations some providers felt that group loans were risky, as members could not be relied upon. Across different providers, group loans range from MZN 1,000 to MZN 75,000. Kulima offers loans specifically for ASCAs, however details for these loans were not available at the time of research.

Payroll lenders offer competitive personal loans, but serve a limited market. The interest rates offered by Letshego and BayPort, at 3% to 3.8% per month, are generally more favourable than rates offered by most microbanks or commercial banks. Loans can range from MZN 3 000 to MZN 100 000, for terms of 6 to 72 months. While borrowers are not required to disclose the purpose of the loan, provider interviews indicate that the primary uses are for agricultural inputs (generally for *machambas*) and home improvements. Once a loan is approved, the application form and salary declaration is signed off by the applicant's supervisor. The payroll

lenders can then deduct the monthly repayments directly from the borrower's salary.

Informal lenders offer flexibility and ease of access. During qualitative fieldwork, it was found that clients of *agiotas* valued the flexibility and ease with which they could negotiate the terms of loans. While average loan sizes are difficult to ascertain, fieldwork found that loans from *agiotas* often range from MZN 100 to MZN 3 000, and some have reported providing loans close to MZN 60 000. Loans terms are often for 30 days with a 30% interest rate (though interest rates can vary substantially). If the loan is not repaid within 30 days, the rate might be raised, for example to 45%, for the next 30 days with incremental increases thereafter. Some *agiotas* require that clients provide a photocopy of their ID as well as collateral. In some instances, *agiotas* will transfer funds from their bank account to that of their client, and repayments are also made through bank transfers. However, this is not the normal operating procedure for *agiotas*. Nonetheless, the fact that some *agiotas* require identification and use bank transfers to engage with their clients shows that some *agiotas* are serving clients who already have a bank account and can overcome eligibility requirements for banks. This is further evidence that informal providers are meeting the needs of some formally included individuals. In fact, according to industry consultations some formal providers believe *agiotas* are more common in the south, and pose direct competition, because this is where the more viable credit market is located.

Xitiques provide liquidity, but interest-bearing credit is not a main activity. While some *xitiques* do offer loans, these are often not interest-baring, and when interest is incurred the rates tend to be low. During qualitative fieldwork one respondent shared his experience trying to secure a MZN 100 000 loan he needed to purchase stock for his business. A microbank he approached would have provided the loan with 11% interest over 12 months, or 16% over 8 months. Instead, the respondent received MZN 100 000 from his *xitique*, for which he did not have to pay interest. The consultations indicated that formal providers have struggled to offer credit to *xitiques*, because they cannot compete with the terms offered through the *xitiques* themselves.

Some lending in-kind, with many instance of interest-free credit. During qualitative fieldwork, many different instances of in-kind lending were found. Some market traders indicated that they would "lend" stock to their regular customers. Similarly, some traders also purchase their stock on credit. For example, a respondent who sells traditional medicine said that, even when her customers cannot afford to pay, she still helps them. Similarly, a farmer had previously lent MT 70 000 worth of maize to neighbours, but was never paid back. In at least some of these instances, there is no interest charged nor is there an expectation of repayment. During qualitative fieldwork, respondents also indicated that if they needed money for an emergency, they would be able to get support from family, friends, their *xitique*, or the community at large. It was regularly explained that such borrowing did not require interest. Amounts borrowed vary, but some examples ranged from MZN 1 000 to MZN 2 000. Many respondents also indicated that, not only do they borrow from family and friends on occasion, but that they also lend to family and friends when they are in need. The prevalence of this practice was further substantiated during consultations with one of the main payroll lenders, who indicated that many Mozambicans do not access interest-bearing credit because they can turn to family and friends for loans in times of need. In such instances where lending is interest free or there is no expectation of repayment, the motive is most likely relationship building to establish a

social safety-net[249].

ASCAs offer low interest rates. Although limited in reach, ASCAs offer relatively low interest rates. A member typically takes out a loan only when needed and if available. The interest rate is determined by the group itself (typically 5% per month). Some ASCAs may decide that they will lend outside the group and will agree on a different interest rate, typically 7% to 10% per month, though it can be higher.

Agricultural loans

Farmers considered high risk. Industry consultations found that multiple providers considered farmers to be high credit risks, as they generally do not own their land and their crops are vulnerable to drought and floods and so not considered reliable collateral. One provider indicated that farmers had a repayment rate of only 30%. However, to help support small-holder farmers, the Mozambican government provides subsidies for some small providers to lend to farmers.

Agriculture credit not reaching farmer target market. Although some relatively affordable group agricultural loans were found, features of most products make these unattainable for the majority of farmers. The basic features of some agricultural loans are summarised in **Table 20** below. As compared to personal loans, agricultural loans offered by microbanks and microfinance focussed banks generally have higher loan sizes, longer term lengths, and more stringent eligibility requirements. Even lower-value loans, for example those starting at MZN 1 000, require borrowers to have at least one year of commercial experience. This is an indication that providers are more focussed on high-value agriculture activities. For example, one commercial bank required a minimum income of MZN 250 000, whereas the average monthly income for farmers is MZN 5 400. Further, all agricultural loans observed required borrowers to meet additional criteria such as business documents, tax documents, or proof of at least one year of experience in a commercial area. The majority of farmers are unable to meet such requirements, as demonstrated by their low take-up of credit. Only 2% of farmers receive agricultural credit from a bank, and only 1% receive credit from a formal source other than a bank. All of these factors likely reflect that farmers are considered high risk, and smaller lenders are moving upstream to serve higher-value clients. Even so, industry consultations found that institutions will often not lend directly to even larger farmers, but will instead extend credit to those providing agriculture products and inputs.

Annex C: **Agricultural loans** provides an overview of the types and features of agricultural loans identified in the product scan.

[249] This is similar to the concepts discussed by Hernando de Soto throughout The Mystery of Capital, where he discusses, in part, the social basis for recognizing rules in the context of property rights. In particular, he states, "People hold and use their assets on the basis of myriad disconnected informal agreements where accountability is managed locally." (De Soto, 210). Further, "They (people in the informal sector) are held together by a social contact that is upheld by a community as a whole and enforced by authorities the community has selected." (De Soto, 28).

Product	Loan size (MZN)	Interest rates	Term length	Eligibility criteria
Microbanks				
Chicken production	15 000 - 100 000	2% monthly	n/a	Proof of income
Agriculture	5 000 - 100 000	2% monthly	1 - 9 months	NUIT, borrower must have current account in this institution
Commercial banks (Microfinance Focussed Banks)				
Cattle	100 000 (min)	1.8% - 4%	9 -60 months	Business activity documentation (Licences, NUIT, financial results, guarantee)
Credit Cooperatives				
Agriculture	1 000 - 5 000	3% monthly	4 - 9 months	At least 1 year of experience in commercial area, bondsman procurement
Agriculture	1 000 - 22 000	3% monthly	4 - 9 months	At least 1 year of experience in commercial area, bondsman procurement
Commercial Banks				
Agriculture	Up to 100% for established business; up to 50% for new business	23% annually	36 - 60 months	Minimum income (MZN 250 000), NUIT [Business plan, DUAT, finacial report,]

Table 20: Summary of common features for agricultural loans offered by large commercial banks and microproviders

Source: Interviews and product scan

Farmers associations filling some of the gap. In the absence of many formal providers targeting farmers, farmers associations are able to meet some needs of low-income farmers. For example, during qualitative fieldwork, one farmer described how his association of 37 members operates. All members are farmers and pay a joining fee as well as monthly contributions thereafter (contribution details were not shared). The farmer interviewed was able to secure a loan from the association in the amount of MZN 40 000, which he would not have been able to get from a bank. Cooperatives also extend some credit for agriculture, but as discussed below cooperatives tend to focus more on MSME loans

Use of personal loans for agriculture shows demand not limited to farmers. While 32% of all adults rely on farming as a main source of income, 80% of all adults are involved in agriculture

to some extent, including for secondary source of income or consumption. Further indicting that multiple target markets other than farmers are also involved in agriculture, 49% of all adults said loss of harvest is a main risk. The lack of credit available for agriculture, then, affects large segments of the total adult population and not only farmers. To meet their needs, many people use personal loans for agricultural purposes. Payroll lenders said that their clients, which are exclusively government workers, often use their loans for agriculture. Microbanks, micro-finance focussed banks, and *agiotas* also said some of clients who are not farmers also use personal loans for this purpose. Demand for agricultural loans, then, comes from multiple target markets.

Pilot programs are exploring opportunities for reaching farmers. While providers are generally hesitant to extend credit to farmers, the unmet needs of this market are recognised. Some providers are engaged in pilot programs to explore ways to better serve low income farmers. While some providers feel group lending is generally riskier than individual lending, in the case of farmers group loans tend to be preferred as this allows risks to be disbursed among members. Illustrative of this, Socremo is involved in two agricultural pilots for "peasant farmers" working their own *machambas*. Both pilots work with 500-600 farmers. In addition, group loans to farmers reduces the number of individuals that a provider must engage, which reduces the administrative costs and increases the profitability of providing such loans.

MSME loans

Cooperatives meeting providing affordable loans. The cooperative *Cooperativa de Credito das Mulheres Nampula* (opened in 1994) and its sister organisation in Nacala Its members are largely microentrepreneurs in urban or semi-urban areas engaged in activities such as selling charcoal, poultry farming, selling cakes, and textiles. The Nampula cooperative has an average loan size of approximately USD 600, which tends to be smaller and more accessible as compared to products offered microbanks and other formal providers.[250]

Many MSME loans offered by microbanks and microfinance focussed commercial banks geared towards thinly served, higher-income customers. As with agricultural loans, the features of many MSME loans offered by formal providers make many of these inaccessible for lower-income populations. Minimum loan sizes and other basic product features are summarised in **Table 21** below.

[250] Consultation with the Cooperativa das Mulheres de Nampula, 11 July 2013.

Loan size (MZN)	Interest rates	Term length	Eligibility criteria
Microbanks			
3 000 - 100 000	10% monthly	12 months	(Proof of income)
50 000 - 100 000	6% monthly	1 - 6 months	Proof of Viability/feasibility of the activity
10 000 - 300 000	3% monthly	1 - 24 months	NUIT, borrower must have current account in this institution
Commercial Banks (Microfinance Focussed Banks)			
100 000 (min)	2% - 5% monthly	9 - 60 months	Business activity documentation
15 000 - 300 000	72% annually	n/a	Minimum income (MZN 5 000)
400 000 - 5 000 000	39% annually	60 months	Proof of income
200 000 - 7 000 000	39% annually	6 - 60 months	Proof of income
Credit Cooperatives			
1 000 - 5 000	4.5% monthly	6 months	At least 1 year of experience in commercial area, bondsman procurement
10 000 - 100 000	4.5% monthly	6 - 12 months	At least 1 year of experience in commercial area, bondsman procurement
10 000 - 50 000	4.5% monthly	6 months	At least 1 year of experience in commercial area, bondsman procurement
Commercial Banks			
500 000 - 30 000 000	17.5% annually	6 - 60 months	Viability project study, reporting, salary in bank

Table 21 Summary of product features for MSME loans

Source: interviews and product scan

Looking across microproviders, minimum loan sizes start at MZN 3 000 for individual loans, and MZN 1 000 for group loans. Some microfinance focussed banks offer loans starting at MZN 10 000. In industry consultations, one microfinance focussed provider segmented their 'micro' loans into two tiers. The first was for loans below MZN 34 000, while the second was for loans between MZN 34 000 and MZN 240 000. Such features are further evidence of microbanks and microfinance focussed banks moving upstream towards higher-income customers.

Eligibility criteria limit access. Stringent eligibility criteria apply across the board for MSME loans. For example, the lowest minimum loan amount observed among microproviders was MZN 1 000 for group products, and MZN 3 000 for individual products. However, the former requires proof of at least one year experience in a commercial area, and the latter requires three months bank statements to show proof of income. Additional eligibility criteria include tax forms, feasibility studies, financial statements, and guarantees. All of these will significantly preclude most Mozambicans from accessing these loans, even if where minimum

loan requirement are appropriate.

Personal loans used for business purposes. As was seen with regards to agricultural credit, personal loans are also often used for MSME purposes. This was reported by *agiotas*, as well payroll lenders. Again, as payroll lenders serve exclusively government workers, this means that demand for MSME credit is not limited to microentrepreneurs.

Asset finance

Home loans generally only accessible for top end of the market. As mentioned in the above discussion of use cases, all target markets demonstrated demand for credit to improve or build their home. However, observed home loans generally come with minimum income requirements and additional eligibility criteria that put these out of reach for the majority of Mozambicans. Home loans starting as low as MZN 25 000 were noted, but these require proof of formal employment and a minimum income of MZN 5 000. The larger commercial banks offer a range of negotiable home loans, but minimum income requirements range from MZN 14 000 to MZN 50 000. All home loans with larger banks require that the borrower receive their salary in the bank offering the loan.

Some lower value asset finance available. Some providers offer affordable loans for smaller asset purchases. For example: Kulima offers loans up to MZN 100 000 for investments such as fridges and boats at 4% interest for one, three or six months. Socremo offers an asset finance product which is often used for appliances such as televisions[251]. However, all other asset finance options offered by larger banks have similar criteria, with minimum incomes starting at MZN 14 000 or higher, and requirements that salaries be received in an account with the lending bank. (A summary of asset finance loans is provided in **Annex E**: Asset Finance).

Retailers play minimal role in asset finance. During qualitative fieldwork, one respondent mentioned that he was paying off a plasma television and a fridge which he bought from a retailer. The instalment is MZN 2 200 per month over a term of 36 months. However, it was not clear if the loan was from the retailer, or provided by a third party financial institution. Regardless, retailers are not major players in asset finance. At the time of the in-country interviews, no retailer had more than five branches nationwide.

6.2.5. Barriers to access

Target markets identify usage barriers more commonly than access barriers. The diagram below summarises the main reasons as to why people have not borrowed. All of the main reasons quoted are usage barriers, rather than access barriers. This was also found to be the case during qualitative fieldwork. However, this does not minimise the challenge of overcoming access barriers. Rather, this shows that for most Mozambicans, credit is either not wanted or formal providers are not perceived as realistic options. In part, this may result from the fact that most Mozambicans enter into financial transactions based on social mechanisms that do not translate into formal processes and products. Credit seems to be for investment or last resort.

Aversion to credit main usage barrier. Of total adults without credit, 31% do not borrow because they are “afraid” to owe money. Low awareness about banks and microbanks, and

[251] Eligibility criteria was not available at the time of research.

9% worried that would not be able to repay a loan. Three percent simply do not "believe" in borrowing. Qualitative fieldwork also found this to be the case, with some respondents worried that they could lose their possession if they were unable to repay.

> *"It is better to struggle than to borrow and run into problems."*
>
> Male, 56, Inhambane
>
> *"I am afraid to ask for a loan from a bank, I don't imagine or see myself belonging there. I also cannot get a loan from a bank, because I will have to give my house as guarantee, if I can't make the repayments, they will take my house and how will I live then?"*
>
> Male, 30-40, Matola

Awareness and understanding of accessing credit a barrier. Of those without a loan, many respondents indicated that they did not consider this as a feasible option. Twenty-seven percent of those without a loan simply did not think to ask for one, while 9% did not know how to ask for one. Further, 9% thought they would not be eligible, and 5% did not know where to go for a loan.

> *"I do not ask for money from them (a bank). I am not used to it and I do not know how to"*
>
> Female, 40 plus, Maputo.

Perceptions about banks deter take-up. Of those not borrowing, 3% felt that interest rates were to high. While this is relatively low as an access barrier, qualitative fieldwork found that some potential borrowers believe banks in particular charged interest rates that were too high. However, as shown in the product discussion, *agiotas* generally charge much higher interest rates than formal providers (20% to 45% charged by *agiotas*, compared to 1% to 17% on average for formal providers). However, some microbanks did charge interest rates comparable to agiotas (30%).

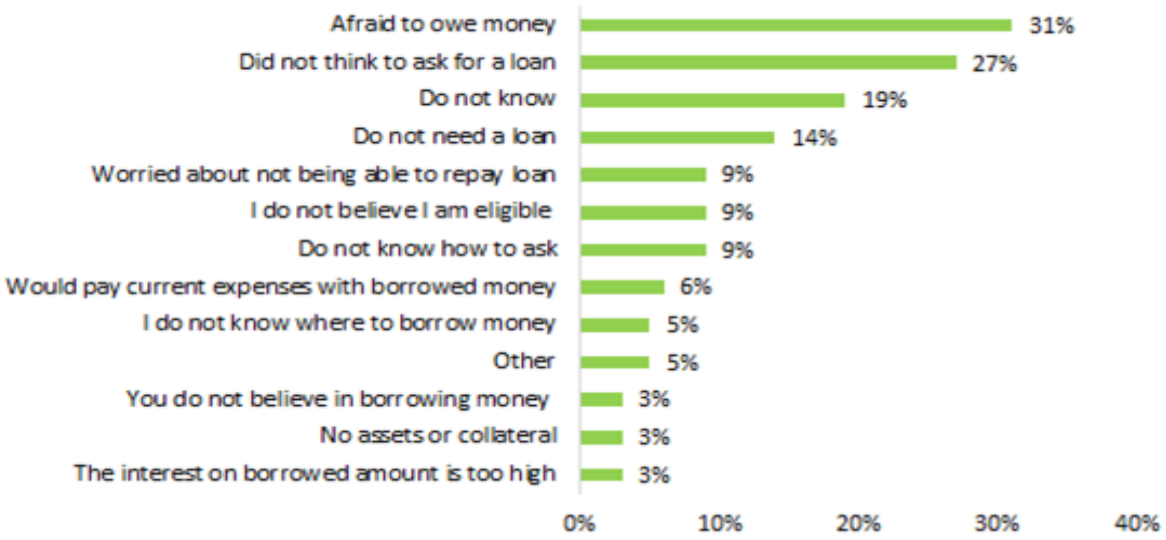


Figure 78: Main reasons for not borrowing

Source: FinScope (2014)

Eligibility requirements an absolute barrier. It is clear from the discussion above that eligibility requirements are an absolute barrier to credit access for most Mozambicans. This is true across all types of credit products. As discussed, these include minimum income requirements as well as various documentation requirements, including identity documents, tax documents, proof of income, or proof of address. However, of adults without access to a bank (for any product), 48% did not have documents that can be used for KYC purposes (such as salary slip, utility bill, or other documents). In rural areas, the situation is even starker as 83% in rural areas did not have any of these documents, compared to 17% of those in urban areas. This barrier is also not limited to informal workers. For example, of those formally employed but without access to a bank, only 14% receive a salary slip. Yet, despite such eligibility requirements being so insurmountable, only 4% listed lack of proper identification as a reason for being declined a lone. However, this is likely due to the fact that doorstep barriers prevent people from going to a bank for credit in the first place.

Proximity a major factor in choice of credit provider. Twenty percent of FinScope 2014 respondents said they did not have a bank account because banks were too far away. The limited reach of the financial sector footprint is outlined in **Section 5.2: Distribution**. In credit, as in the other product markets, proximity serves as a significant barrier to access. During qualitative fieldwork, for example, during an individual interview said that she had not pursued an FDD loan, "[b]ecause the money might be finished by then," due to the time it would take to reach the FDD offices. It was also shared that there was no point in travelling to a bank, because what little money a person has is spent on the taxi fare. Clients, then, must consider various forms of fees, travel costs and opportunity costs in deciding whether to pursue a loan.

Multiple fees increase affordability barriers. The discussion above highlighted that interest rates generally do not vary substantially, though with some exceptions. Interest rates would not appear to be a significant access barrier at first glance, though qualitative fieldwork found that interest charged by formal providers might be higher than was observed in the product scan. However, aside from interest rates, the addition of a number of fee components raises the total cost of credit and therefore creates an affordability barrier. In addition to interest rates, borrowers face various fees, such as origination fees, cash withdrawal fee, cash deposit fee, collection fees, management fees, modification fees, processing fee, commitment fees, credit restructuring fees, handling fees, inspection fees, commissions for early settlement, and opening and evaluation expenses.[252] One bank reported that as much as 15% to 20% of their revenue is from transactional fees. Even after Aviso 5/2009 prohibited most fees, there are still around 25 different types that are charged. Such additional costs can be a deterrent for those with limited surplus cash. In one qualitative interview, the respondent indicated that it is easy to make larger purchases, such as a gas stove, through her *xitique*, rather than from a loan with a bank. In the alternative, if she were to go to a bank for a loan, she said she would need to provide MZN 500 (implicitly for an initiation fee), which would be a cost that she would not incur with her *xitique* (it was not mentioned whether the *xitique* charged interest for loans). In the box below are comments that are representative of respondents' perception of the cost of credit.

> *"ProCredit's interest rate was very high, this is the reason why I will not ask for a loan from them again"*
>
> - Female, 20-30, Matola

[252] Based on assessment of formal credit provider products and interviews.

> *"I did not gain with it, because the interest was too high."*
> - Male, 40, Inhambane (commenting on loan from Socremo)

Low levels of education inhibit access to loans. Among business owners, 66% have primary education or lower. As reported during industry consultations, low literacy rates prevent many people from using ATMs. Completing the documentary requirements required of many formal borrowers, then, will be difficult for many borrowers. This would even pose challenges for navigating the loan application process for the FDD programme, which is supposed to be focussed on serving marginalised groups.

Ease of access a major concern in accessing loans. During qualitative fieldwork, respondents indicated that getting a loan from a bank would take days and in some instances months. In contrast, getting one from an *agiotas* is almost immediately. There was a strong indication that speed and ease of access were priorities in accessing a loan. Given that credit is commonly used for emergencies or consumption smoothing, long application processes will not meet the needs of many borrowers.

> *"If I need money for today or the next day, the bank will not give me that money, and they will need guarantees or anything while if I talk to a person (agiota), I will have that money immediately."*
> Agiota, Matola, 11 July 2013

Personal relationships and trust form basis of informal credit. With regards to their experience with a loan from an agiota, 83% of respondents were aware of the costs before accessing the loan, 84% said they could afford the loan, and only 24% felt that the loan application process was difficult. This suggests that the majority of respondents understand and are comfortable loan processes with *agiotas*. *Agiotas* and clients tend to have a relationship. There tends to be a strong preference towards borrowing from *agiotas* or other informal sources rather than a bank. For example, in interview a respondent who works at Millennium BIM and has a bank account there still preferred to borrow small amounts from friends. Another major factor driving people to borrow from *agiotas* over banks is trust. While most qualitative respondents indicated that they trusted *agiotas*, there were also reports that some *agiotas* do resort to threats or valance to secure repayment. However, these were not widely reported, and the majority of respondents indicated that they had a good relationship with their *agiota*.

> *"People trust him (the money lender). It is easy to talk to him. If there is a month that you cannot pay, you can talk to him and he can tell you to pay 2-3 months later. Only then will you have to sell stuff to pay him. It is the best place to go if you are in trouble."*
> Lodge manager, Inhambane

Lack of credit bureau causes conservative lending behaviour by formal providers. In informal lending as observed in Mozambique, personal relationships and social networks inform a provider's decision on whether or not to offer credit. However, as is often found in informal mechanisms based on social ties, this limits information about a borrower to localised groups of people. In order to reach excluded and thinly served groups, formal providers need customer information on which to gauge creditworthiness. One of the reasons payroll lenders focus exclusively on government employees is because the lenders have access to government databases and can easily verify borrower identity and working status (the other main reason for focussing on this target market is because lenders can use payroll deductions). Between

these two extremes, of localised information based on social networks and a comprehensive, integrated government database, there is a gap in the availability of reliable customer information. An effective credit bureau could start filling this gap, if one can start aggregating more complete customer information.

6.2.6. Regulatory issues to consider

Tiered microcredit licenses lack supervisory proportionality. The financial sector regulations were drafted with the commercial banks in mind. Consequently, and despite subsequent amendments to account for smaller providers focussed on lower-income markets, microbanks still face many of the same regulatory challenges as commercial banks, and therefore they also face the same operational costs. Industry consultations suggested that the government requires the same on-sight inspections and paperwork for a microbank as would be expected of a commercial bank. For example, the two largest payroll lenders both reported that, even though they do not currently take deposits, regulations applied are as onerous as if they were full banks. For example, the length of time taken for branch inspections deters expansion. This same lack of proportionality is found in KYC requirements. As discussed above, all microbanks and microfinance focussed banks require identification documents in order to access a loan, yet the majority of Mozambicans do not have access to most documents that would qualify for KYC purposes.

6.2.7. Gaps & opportunities

The analysis in this chapter has shown that usage of credit is very low in Mozambique – even more so for formal than informal products. Is this indicative of the absence of a substantive potential market, or largely a function of the severe access barriers facing all but the two formally employed segments, as well as the structural supply-side barriers facing providers?

Difficult to gauge credit preferences from current consumer behaviour. The barriers discussion above indicated not only access barriers to credit, but also significant usage barriers such as an aversion to credit and a lack of trust or comfort with formal providers. While credit is used by excluded populations, there is not sufficient evidence as to how much of that credit is interest-bearing. Fieldwork found that many respondents would occasionally lend to, or borrow from, family and friends without any interest being charged. Further, because it is not clear how many respondents who reported borrowing from "family and friends" were actually borrowing from "*agiotas*", it is difficult to know how much of this informal credit was interest-bearing. Similarly, individual interviews also found that farmers and market traders occasionally lent food or goods to their neighbours or customers. In at least some of those instances, the loans were also interest-free. In the same way, because of the FDD loans low repayment rate of 5% or less, this program also does not show a market for interest-bearing credit.

Pronounced supply-side challenges. The analysis has shown that there is a fairly large number of credit providers in Mozambique across a variety of institutional types, and offering a range of products. According to those microbanks and microfinance focussed providers interviewed, non-performing loans (NPL) in general do not appear to be a major concern[253]. Yet, as

[253] For example, one microprovider with average loan sizes of MZN 40 000 had an NPL rate of 10%, while another microprovider had a rate of 5% (average loan size for the latter unavailable). However, consistent with concerns about farmers as credit risks, the NPL rate for agricultural loans is reportedly high, with repayment as low as 30% in some instances.

highlighted in **Section 5: Financial sector overview**, liquidity constraints and distribution challenges mean that the retail lending focus remains limited. Indeed, the target market for microbanks and microfinance focussed providers is shifting towards middle to higher-income segments. Furthermore, skills shortages are of severe concern in the financial sector. Many of the same skills are required in microbanks as in commercial banks. While some cooperatives focus on MSME and agricultural credit, these have limited reach and informal lenders and family and friends are the main source of credit for such products.

From both the demand-side and the supply-side, therefore, it is clear that the expansion of the retail credit market faces substantial challenges. What, then, are the most feasible opportunities?

Specific pockets of opportunity. Despite the challenges facing most Mozambicans in accessing formal credit, there are some specific opportunities to better reach excluded or thinly served populations, as well as initiatives that can start shaping an environment more conducive to inclusive credit markets. Product opportunities for specific target markets are summarised below in **Table 22**, and actions necessary to unlock this opportunities are discussed thereafter.

Opportunity	Potential impact	Priority action to unlock opportunity
Mobile money	Relevant target markets: • Farmers • Dependants • *Biscato* • Microentrepreneurs • Salaried workers • Government workers Leveraging mobile money would enable innovation, costs savings, and more accessible products, thereby enabling providers to boost the reach off all other product opportunities listed below.	• Expansion of electronic payments footprint • Leveraging Interbancos for expanded and improved interoperability • Regulatory proportionality
MSME credit	Relevant target markets: • Aspirational MSMEs • Salaried workers • Government workers As the Target Market discussion **in Section 4** showed, there is a subset of aspirational MSMEs that earn substantially higher and more stable incomes than most Mozambicans. Many of these individuals remain excluded or thinly served by formal institutions. Further, it was found that some salaried workers and government workers who access credit do so for expanding or starting a business for supplemental income. Products tailored for these purposes, such as through expanded product offerings by payroll lenders, could better reach these subsets of the target markets.	• Payroll deduction services for employers without necessary systems, and expansion of payroll lending products • Regulatory proportionality • Credit bureau reform

Agricultural credit	Relevant target markets: • Farmers (subsets that are networked through aggregators or associations) • Salaried workers • Government workers Individual loans for farmers are not likely to gain traction in the short term. However, there opportunities can be explored through working with outgrowers, farmers associations, and other aggregators. This potential has been demonstrated by pilot programs, as well as by farmers organising informally among themselves. Some providers feel that working with farmers as a group reduces the credit risk associated with this target market. Partnerships between providers and aggregators could facilitate improved access for smaller farmers. As with MSMEs, some salaried workers and government workers also borrow for agricultural purposes to supplement their main income. This market may also benefit from products tailored to meet these needs.	• Leveraging aggregator-based distribution channels (e.g. outgrower schemes) • Payroll deduction services for employers without necessary systems, and expansion of payroll lending products (for reaching government or salaried workers) • Regulatory proportionality • Credit bureau reform
Personal credit	Relevant target markets: • Salaried workers • Government workers • Aspirational MSMEs There are many "banked" Mozambicans who are not able to meet their credit needs through formal entities. As discussed, many of these loans are put towards MSME or agricultural purposes. With greater understanding of these markets, providers can better identify and serve these and other credit needs. The initial beneficiaries of more readily available personal loans are likely to be the thinly served private and government sector salaried workers, and the MSME subset of aspirational microentrepreneurs.	• Payroll deduction services for employers without necessary systems, and expansion of payroll lending products • Regulatory proportionality • Credit bureau reform
Asset finance	Relevant target markets: • Salaried workers • Government workers • Aspirational MSMEs There is little indication of asset finance offered by retailers, and most asset finance loans offered by formal institutions are geared towards higher-value assets and therefore higher-income earners. Expanded offerings of lower-value asset finance could benefit salaried workers and government workers, whether the asset is a personal luxury item or an input for MSME or farming activities to supplement income. Aspirational microentrepreneurs could also benefit from asset finance options. For example, it was found that some microentrepreneurs	• Payroll deduction services for employers without necessary systems, and expansion of payroll lending products • Regulatory proportionality

	purchased items such as freezers or bicycles for use in their businesses.	

Table 22: Summary of credit opportunities by target market

Source: Authors' own, based on target market analysis

Priority actions to unlock opportunities

Expand payments footprint, and leverage interoperability through Interbancos. Improved infrastructure and interoperability in the payments system will impact all levels of the economy. For large banks and companies, this will allow greater efficiency and costs savings that will incentivise the migration of large value transaction away from cash or cheques to electronic payments. In turn, this will also start easing pressure on capital that is currently tied up either physically as it is transported between rural and urban areas, or must be held while cheques are manually processed. For excluded and thinly served target markets, an expanded payments footprint and interoperability can greatly increase access through enabling the development of alternative distribution channels. Without expanded cash-points, such as through ATMs and POS devices, customers will not be able to access funds. This would limit the reach and undermine the potential impact of any mobile money product.

Enabling payroll lenders to expand to new markets, and offer new products. Payroll lenders have demonstrated the market opportunity for reaching thinly served target markets. As many clients use loans from payroll lenders for business or agricultural activities to supplement income, payroll lenders could better serve customers by tailoring products to meet these varying needs. By offering payroll deduction services to employers who lack the necessary systems, payroll lenders would be able to extend their offerings to thinly served private sector workers. Further, if payroll lenders are permitted to start taking deposits, they would be in a position to serve more needs of their existing customers, while also building a foundation from which to expand to new markets.

Regulatory proportionality can reduce costs for smaller providers. Branch banking requirements are costly for credit providers at all levels. However, microbanks and microfinance focussed banks face greater challenges in managing these costs. Allowing regulatory proportionality to reduce branch requirements would ease pressure on smaller providers. Similarly, a lack of proportionality with regards to KYC regulations prevents many potential borrowers accessing formal providers. As discussed, the majority of Mozambicans lack the necessary documentation required to meet these eligibility requirements. Regulatory proportionality would also help facilitate the development of alternative distribution channels. For example, this would allow providers to more effectively leverage agents, or reach rural markets through mechanisms such as outgrower schemes.

Effective credit bureau can help improve access for thinly served. The existing credit bureau in Mozambique does not provide sufficient information to gauge a customer's creditworthiness. As demonstrated by the payroll lenders, availability of an integrated, reliable database of government workers (even though not showing indebtedness) was one of the key factors enabling these lenders to reach clients (as discussed, the other main factor for the focus on government workers is the ability to do payroll deductions). An effective credit bureau can, aggregating more complete data on customers, can start building sufficient and reliable information about potential borrowers, particularly private sector salaried workers, to inform lenders decisions on extending credit.

6.3. Market for savings

Why focus on savings? In Mozambique, savings is the most commonly used financial product. This includes both monetary and in-kind savings. Monetary savings provide a means of accumulating funds that can be used to purchase assets, manage a risk event, or smooth consumption during income fluctuations. In an economy where the majority of people transact in cash, appropriate and accessible savings products can provide better ways of storing, accumulating and managing cash until it is needed for expenditures or emergencies. This section explores the methods and uses of savings most common in Mozambique.

Key issues: market for savings

- While savings is the most commonly used product, overall savings still low.
- Lack of surplus income a main reason for not saving.
- Largest banks dominate the formal savings landscape, but there is limited incentive for either banks or microproviders to go down market or invest in the necessary infrastructure to reach into rural areas.
- Informal savings are the most common means of savings for all target markets except government workers. There is also significant in-kind savings, primarily in cattle or business investment.
- *Xitiques* are the most popular form of savings, but these are largely urban and concentrated across three provinces in the far south and two in the far north.
- There are few savings options in rural areas other than friends and family, saving at home or in-kind savings.
- Fees and eligibility requirements (notably KYC, minimum income, and minimum balance requirements) pose access barriers.
- Proximity and safety, rather than interest rates, are main considerations in choosing a means of saving.
- Expanded payments footprint and interoperability, especially in rural areas, is central to leveraging mobile money for savings offerings.

6.3.1. Savings take-up

Savings most common financial product in Mozambique. Almost 35% of all adults in Mozambique save, whether formally or informally, which is the highest take-up as compared to the other product markets. However, take-up is still very low compared to other countries in the region. More than 60% of adults in South Africa and Swaziland report saving with an informal or formal provider as do more than 50% of adults in Lesotho.

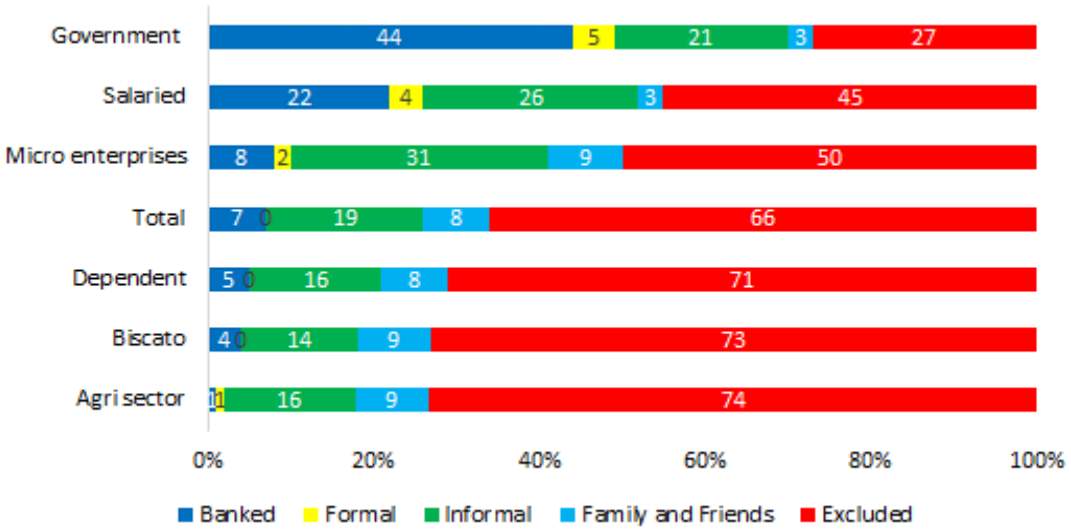


Figure 79: Savings take-up: total and by target market

Source: FinScope (2014)

Safe store of value and remittances drive demand for bank accounts. It is important to note that the savings strand above only considers those adults with a dedicated savings product or service, such as an interest-bearing savings account. However, it can be expected that many people will use other vehicles, such as a transaction bank account, for saving/store of value purposes. If transaction and current accounts are added, the percentage of Mozambicans that have access to savings options in banks jumps from 7% to 14%. While such accounts are often used for safe store of value, many of these accounts are also sought for the purpose of sending domestic remittances, while others accounts lie dormant and are not actively used. Illustrative of this, one provider reported that approximately 25% of their deposit accounts were inactive, while another indicated that approximately 33% of their current accounts were inactive. Uptake of such accounts, then, does not necessarily reflect savings behaviour but does indicate access to products that can be used for savings. Various lenses for viewing savings is discussed in more detail below, in Box 22.

Deposits concentrated in large banks. As with credit, deposits in formal institutions are concentrated in the largest banks. The three largest banks control 82% of total deposits in Mozambique[254]. The consultations suggested that smaller formal providers, with a more limited footprint, struggle to attract deposits, and compared to larger banks have proportionately smaller savings and current account books. In one extreme illustration, a microfinance focussed bank reported that their total deposit book only equated to 2.2% of their loan portfolio.

Formal sector saves the most. Overall, only about 6% of adult Mozambicans have a savings account with a bank, 1% have a time deposit with a bank, and 1% have a savings account with a cooperative. When considering savings uptake across target market segments, it can be seen that substantially larger portion of government workers save than other target markets. This is also the only target market where savings in a bank, at 44%, exceeds informal savings. For salaried workers, the target market with the second largest proportion saving in a bank, at 22% savings in a bank is only half that of government workers. For all remaining target

[254] BdM 2013 Annual Report

markets, only eight percent or less save in banks. At the same time, however, qualitative fieldwork indicated that there are at least some instances in which family members share a bank account, which means that more people may in fact have indirect access to bank savings than is indicated on the savings strand.

Informal savings common with all target markets. Microenterprises are the highest users of informal savings, with 31% saving in informal mechanisms only and 9% saving exclusively with family and friends. However, informal saving is common across all target markets. Farmers, dependents and *biscato* all have similar informal savings profiles when combing saving informally and with friends and family (23% to 25% of adults for each group).

Significant overlap in total formal and informal usage. The informal component of the savings access strand in **Figure 79** shows the percentage of adults who are *informally served only*, meaning they do not have any formal products. However, this underestimates total informal savings, as many adults who report saving formally also save informally. **Figure 80** highlights that many of those saving are thinly served. Note that this figure captures, for those that are saving, the extent to which they have access to *any* product, whether credit, payments, insurance or savings. This shows the extent to which savers have access to a bank at least one product, yet cannot meet all of their financial needs there and therefore also access informal optoins. Of those saving, 38% have access to a bank. However, a total of 19% are banked, but still access informal financial products[255]. The excluded category (39%) here captures those that save in kind as well as those that save with their family members or friends.

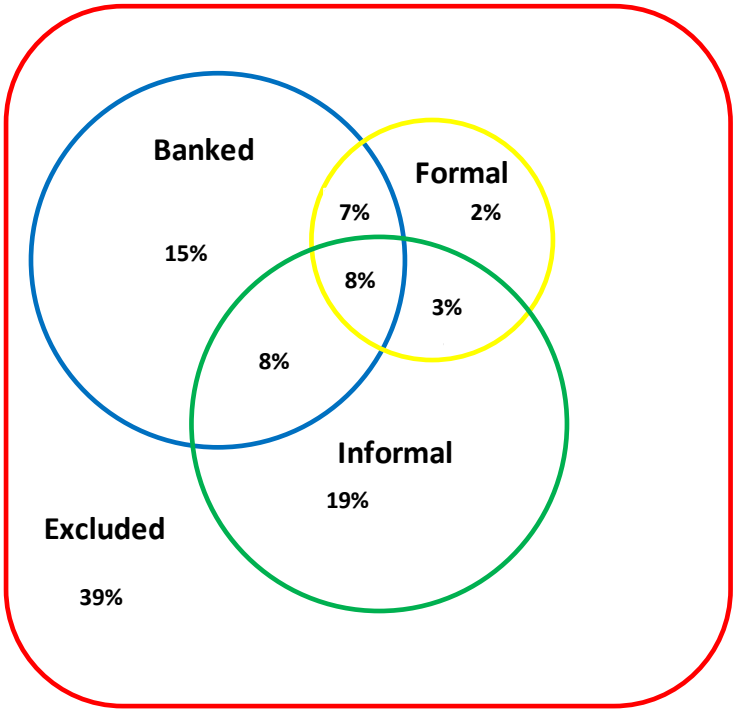


Figure 80: Among those saving, overlap of access to bank, formal and informal products[256]

Source: FinScope (2014)

[255] For the purposes of this diagram, only monetized informal savings is included. In kind savings is excluded.
[256] Note that this Venn Diagram captures, for those that are saving, the extent to which they have access to any product, whether credit, payments, insurance or savings.

Xitiques most common means of saving. Informal savings take-up captures various types of *xitiques* and other group saving mechanisms. A basic *xitique* is a rather simple rotating savings group. *Xitiques* are generally formed based on the savings objectives, time horizons, and affordability of contribution amount of the members.

> *"I take the xitique as a bank – it is for saving money."*
>
> Female, Age 40, Matola, 11 July 2013 (sells bread)

Of those adults who report saving informally, 78% said they saved with a *xitique*, ten percent with a *xitique geral*[257], and three percent with a different form of community based group savings (see discussion on the different types of *xitiques* below – in this diagnostic, "*xitiques*" and "*xitique geral*" are combined and discussed together).

Xitiques concentrated geographically. As shown in **Figure 81**, *xitiques* are concentrated in a handful of provinces. As with formal savings, informal savings are also concentrated in urban areas.

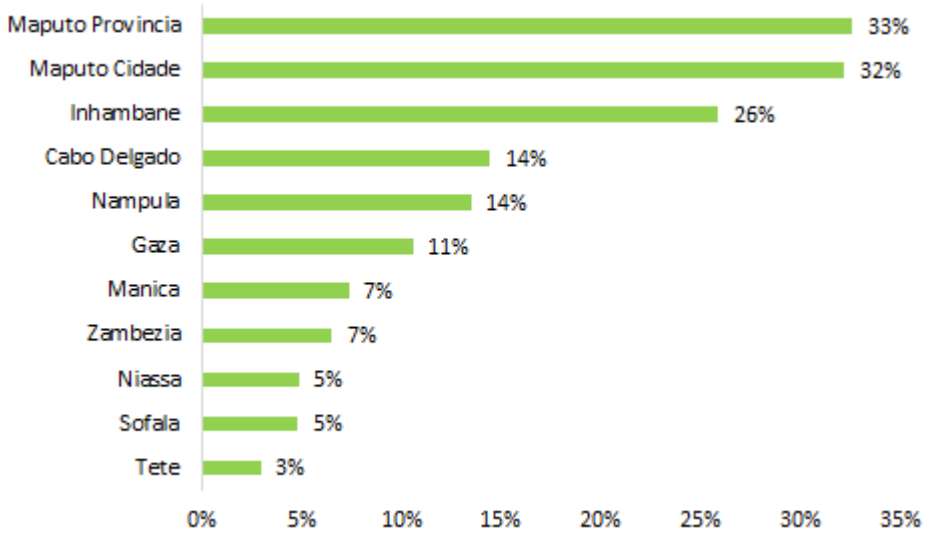


Figure 81: Percentage of adults in each province that report belonging to a *xitique*

Source: FinScope (2014)

In urban areas, 20% of adults reported belonging to a *xitique*, whereas in rural areas only 9% belong to a *xitique*. Further, *xitiques* are concentrated in the south, where the highest percentage of adults participating in a *xitique* are located in Maputo City and Province, with 32% and 33% respectively. This is followed by Inhambane and Gaza with 26% and 11%. In the far north, Cabo Delgado and Nampula also show relatively high use of *xitiques*, with 14% take-up in each province. Throughout the rest of the country, use of *xitiques* ranges from 3% to 7% in each province (FinScope 2014).

ASCAs are not widespread. Accumulating Savings and Credit Associations (ASCAs) in Mozambique follow the CARE International model for village savings and loan associations

[257] A *xitique geral* is described as a structure by which a collector visits each member of the *xitique* individually to gather contributions. However, in practice most people do not distinguish between a '*xitique*' and a '*xitique geral*'. The term '*xitiques*' is generally used, regardless of structure. Therefore, in this analysis, these are combined and discussed only as '*xitiques*'.

(VSLAs). Generally, these groups receive basic mentoring and financial education from donor agencies, with the intention that group members will share their knowledge and spread the savings methodology. However, only about 160,000 people participate in ASCAs. In addition, ASCAs are concentrated in only a few provinces, with Nampula, Zambezia, Inhambane, and Manica accounting for approximately 90% of all ASCA membership.

Significant non-monetary savings. In Mozambique, 11% of total adults report saving in-kind, or 7% of total adults saving specifically in cattle[258] and the remaining 4% report saving through business investment or other physical assets[259]. **Figure 82** shows that savings in-kind is common across all target markets. Government workers have the largest percentage of adults who report saving in kind, followed by micro-enterprises, while farmers and dependents have the lowest percentage of in-kind savings. This bolsters the fact that government workers, as discussed in **Section 6.2: Market for credit**, are most likely involved in agricultural and business activities beyond their primary employment.

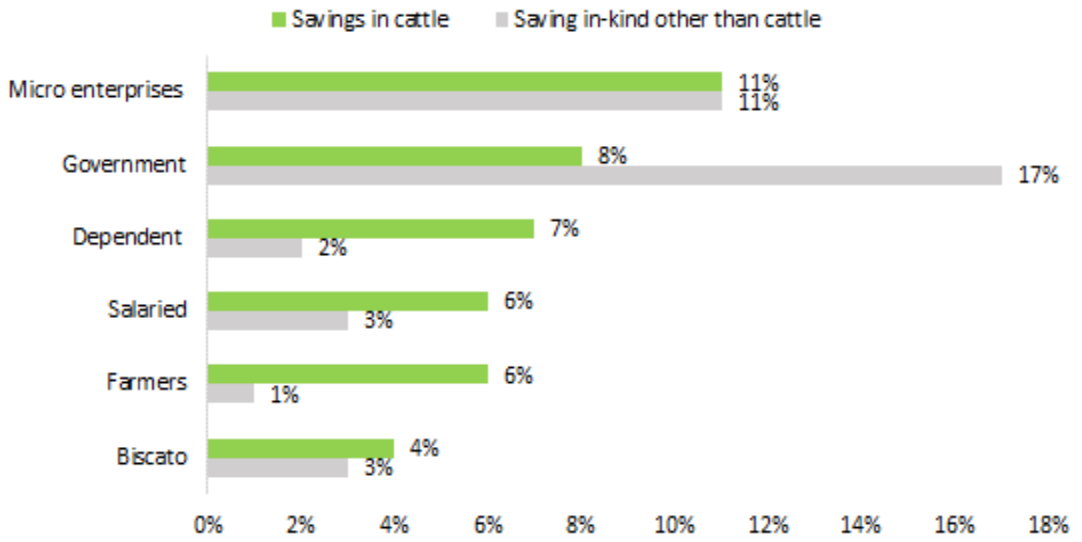


Figure 82: Comparison of saving in cattle versus saving in-kind other than cattle

Source: FinScope (2014)

Membership in multiple xitiques can help meet different savings objectives. Some respondents, 3% of the total population, reported to belong to multiple *xitiques*. This likely reflects the fact that *xitiques* can be structured to meet various saving objectives. Some daily *xitiques* are, for example, formed by market traders in order to provide liquidity for the purchase of business stock. However, members of such a *xitique* might also participate in other groups, such as a family *xitique*, which would have different saving objectives, is likely to have longer savings cycles, and possibly more flexible terms. Belonging to multiple *xitiques* also enables individuals to receive funds more frequently by staggering when the times when

[258] Hernando de Soto claims that in medieval Latin, "capital" referred to heads of cattle. He further notes that cattle have always had value beyond simply being a source of meat. Rather, they have utility which can be leveraged for additional productivity. (De Soto, Hernando, The Mystery of Capital, 2000, Basic Books, 41-42.) The relevance for Mozambique is simply that while many people are considered high credit risks because they lack collateral, in-kind savings appear to be overlooked as possible collateral.
[259] For example, the qualitative fieldwork revealed that significant value is placed on ownership of coconut trees because of their utility as a productive resource. Coconut trees have multiple uses, including leaves for home construction, coconuts for oil, milk and "meat" for cooking, wood (use not specified) and extra coconuts are sold (for example to a soap factory in Inhambane).

it is their turn to receive funds. Others might join more than one *xitique* in order to mitigate the risk of putting money into only one group.

A main reason for choosing where to save is to keep money safe. Keeping money safe is a major concern in choosing where to save. Thirty-seven percent of those who save chose where to save based on safety and reliability, and six percent did not want others to have access to spend their money. Only five percent of FinScope respondents considered interest as an important factor in choosing where to save. Safe store of value, then, rather than interest rates are a main motivation for saving.

Safe store of value accounts and in-kind savings alter savings take-up. If in-kind savings is excluded from the savings strand, and store of value bank accounts are included, the saving profile in Mozambique shifts somewhat. Most noticeably, when in-kind savings are removed from informal savings, the percentage of adults who report savings informally decreases from 19% to 11%. However, when store of value bank accounts are added to the savings strand, the percentage of those with savings in a bank doubles from 7% to 14% (as mentioned previously, while this might not reflect savings, this does show reach of products that can be used for safe store of values). **Box 22**, below, discusses the different ways in which savings can be defined and how this impacts the savings strand.

Box 22: The impact of savings product definitions on the savings strand

Value can be viewed in a variety of ways. For purposes of the access strand, the definition for savings is based on the primary function of a particular vehicle, regardless of whether it is monetary or in kind[260]. However, there are many ways in which individuals may save. Using the main-use approach to define savings, salary accounts and debit cards are excluded from the savings strand since their primary function is to transact, while in-kind savings are counted as savings due to their usefulness for store of value. The first access strand in **Figure 83** is constructed on this basis. However, in order to hone in on the potential for savings from a financial services perspective, it is important to understand the extent to which products that could be used for monetary savings or store of value are available. Below, the various ways of defining savings are reviewed in order to better understand the ways in which savings can be viewed in Mozambique, and to help better identify opportunities for financial inclusion.

In kind savings increase informal take-up. The second strand in **Figure 83** shows the impact on the access strand if in-kind savings are excluded from the definition of a savings product. Here, the emphasis is only on *monetary* vehicles where the primary function of the product is to save. In this case, informal savings drops substantially, while those that rely on family and friends to meet their needs increases slightly[261]. Ultimately, the excluded category increases from 66% to 70% due to the fact that, for many Mozambicans, the only way they can save is to reinvest their income into various business or physical assets[262].

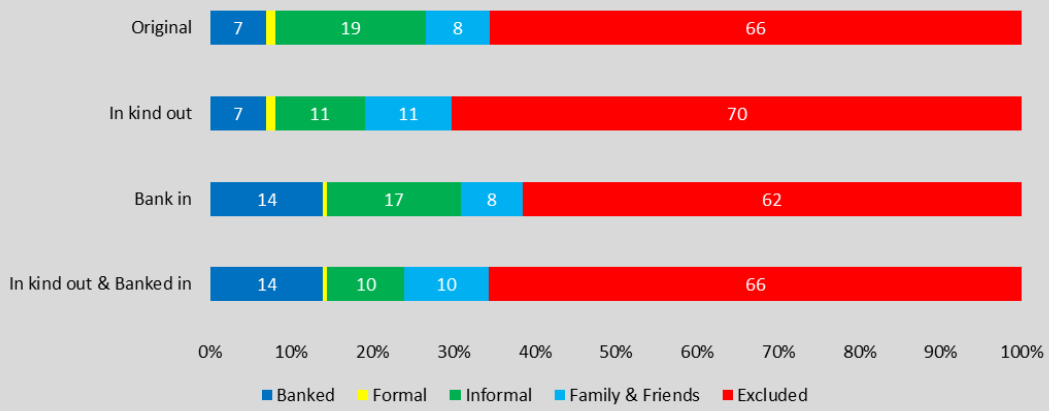


Figure 83: Comparison of saving strands with in-kind removed, and safe store of value bank accounts added

Source: FinScope (2014)

Transaction products increase formal take up. The third strand in **Figure 83** shows the savings profile in Mozambique when banked transaction products are included in the savings strand along with in-kind savings. In this case, any type of savings mechanism that can be used for store of value is included in the savings strand, whether monetary or in kind. Here, banked inclusion doubles, while informal savings with family and friends declines slightly due to the fact that some of these individuals are now included in the banked category. This is the same reason the informal category drops slightly as compared to the original savings strand[263]. With this broader definition of savings, overall exclusion declines from 66% to 62%.

When in-kind is excluded and banked included, overall exclusion remains unchanged. The final strand in **Figure 83** shows total savings when excluding those that save in-kind and adding those that have

access to transaction products, such as debit cards, that can be used for store of value. This configuration emphasizes savings options from a monetary perspective. Overall exclusion remains unchanged, however those that are included are now more likely to be included in formal finance and less likely to only have access to informal mechanisms[264].

This shows the complexities in understanding how value is perceived in Mozambique. It is quite apparent that physical assets are often considered an important way to save. This also shows that the market for unserved monetary savings is even lower than it might appear at first glance, as the combined percentage of those saving informally or with family and friends drops from 27% to 20% when the savings strand is reconfigured to exclude in-kind savings but adds store of value bank accounts. However, the percentage of banked savings customers doubles, which may show possible ways to reach thinly served markets.

6.3.2. Use cases

This section discusses the main reasons why Mozambicans save. Common uses found in the quantitative and qualitative demand-side research fall into four broad categories: (i) consumption smoothing; (ii) risk mitigation; (iii) asset accumulation; and, to a lesser extent, (iv) planning for the future.

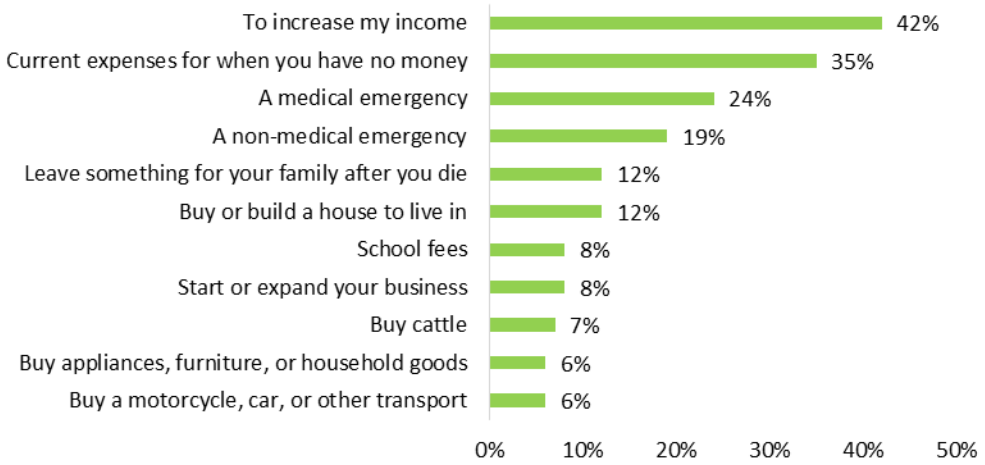


Figure 84: Reasons for saving

Source: FinScope (2014)

[260] This definition is in line with the definitions used by FinMark Trust and FinScope.
[261] Family and friends rises since many individuals who would have been considered as having "informal" access via their in-kind savings in the original strand, do not have this type of savings product in the stricter definition. They may however still be saving with family and friends, allowing them to form part of that category as opposed to being excluded entirely. For a more in depth discussion, see the definition box in **Section 4. Target market analysis.**
[262] This case is backed up by the qualitative research, where many respondents indicated that they use any surplus money to improve their homes, expand their businesses, or obtain equipment that would help them farm more productively.
[263] Individuals that would previously have been excluded from the savings strand due to the fact they use transaction products are now included, since these products may allow for safe store of value despite it not being the main purpose of the product. They therefore 'move up' from excluded, family and friends, informal and formal into the banked category, leading it to increase in this category, and a drop in the informal and family and friends categories.
[264] The reconstitution of the strand in this case is a combination of the effects described in the preceding two paragraphs.

Accumulation of funds and consumption smoothing most common reason for saving. The most common reason that Mozambicans report saving is to increase income, as reported by 42% of those that save. The second most common reason for saving amongst adults (35%) in Mozambique is to cover current expenses when money is not otherwise available. All target markets reported this as a major use of savings, with government workers at the low end (27%) and dependents at the high end (42%).

Risk mitigation a primary use of savings. Medical and non-medical emergencies are among the leading uses of savings among all target markets. Of those saving, 24% use their savings for medical emergencies. Thirty-two percent of salaried workers who saved did so for this purpose, while 25% to 28% of government, farmers and micro-entrepreneurs who save did so for this purpose. Similarly, 19% of savers use their savings to cover non-medical emergencies. *Biscatos* showed the lowest percentage (13%) used savings for non-medical emergences, while salaried workers who save had the highest percentage (25%) using savings for this. As mentioned in **Section 6.4: Market for insurance**, non-medical emergencies most likely include loss of a harvest (reported by 49% of all adults as a main risk), theft, fire or damage to property (49%), flood damage (34%), or the job loss of the main wage earner (24%).

Savings for asset accumulation common in all target markets. Savings are often used to accumulate or maintain assets. All target markets listed saving to build or buy a house for their own use as a major priority. Among dependents, farmers, and salaried workers, between 9% and 10% of those saving did so for this purpose. Within the remaining target markets, 18% of those saving do so for this purpose (two percent saved by owning a house other than the one in which they lived). This was also found to be a priority during qualitative interviews. This demonstrates that Mozambicans put tremendous value on their homes as a long-term asset.

Education a top priority, but low use of savings for this. As discussed previously, education was regularly identified as a top priority during qualitative fieldwork. Respondents indicated that the reason for prioritising their children's education was simply so that they can have a better future. However, there is low use of savings for this purpose. Of those who save, 8% use their savings for education expenses. This is relatively low compared to other counties in the region, such as Swaziland where 13% of adults who saved did so for education expenses. The low use of savings for education, despite this being a top priority, is indicative of the fact that many Mozambicans simply lack sufficient surplus resources.

> *"I invest in their school education, in their future."*
>
> Male, 40+, Matola

Savings for productive inputs low overall. Few Mozambicans use savings for agricultural inputs. Only 4% of those savings use this for lower-value inputs such as seeds and fertiliser, and also only 4% use savings for higher-value inputs such as farming equipment. While farmers are the highest users of savings for agricultural inputs, as was the case with credit, other target markets show comparable uses of savings for these purposes. The uses of savings by all target markets for low value agricultural inputs (seed, fertiliser, etc.), high value inputs (farm equipment, etc.), and cattle[265] are summarised in **Table 23**.

[265] This refers to those that use savings to *buy* cattle, which is distinct from the previous discussion regarding savings *in* cattle.

Target market	low value inputs	High value inputs	Cattle
Farmers	10% (113,000)	6% (65,000)	12% (132,000)
Dependants		5% (55,000)	7% (73,000)
Micro-enterprises			5% (44,000)
Biscato	5% (17,000)	5% (18,000)	
Salaried			5% (14,000)
Government			4% (17,000)

Table 23: Use of savings for agricultural inputs by target market

Source: FinScope (2014)

Farmers use savings noticeably more for low value agricultural inputs than any other target market, with 10% of farmers saving for this purpose and 5% of *biscatos*. However, use of savings for high value inputs is comparable for farmers, dependants, and *biscato*. A larger percentage of farmers also save for cattle than do any other target market. However, all target markets except *biscato* show relatively high uses of savings for cattle. The savings profiles of these non-farming target markets may indicate that these groups either earn additional income in agriculture, or have family ties with farmers.

Saving for other types of inputs are seen primarily with microenterprises. Within the microentrepreneurs target market, 22% of those saving report using their savings to start or expand a business. Nine percent use savings to purchase appliances, which is more than all target markets except government workers (10% of whom use savings for appliances). Given the lower average income of this target market, and based on individual interviews, at least some of these appliance are for productive inputs. For example, a chicken farmer in Inhambane said that he lost a contract with a lodge to supply slaughtered chickens because the meat spoiled during the hotter months. He has since purchased a fridge to avoid this happening again. The need for appliances for microentrepreneurs was further substantiated during interviews with formal financial institutions. In addition of microentrepreneurs who save, 9% report using savings to purchase vehicles, more than any other target market. A formal provider indicated that often bicycles are used by traders to transport and sell goods.

6.3.3. Providers

Savings provision concentrated in banks (formal) and xitiques (informal). Regulatory categories of savings providers are the same as those listed in **Section 6.2: Market for credit**.This includes the dominant commercial banks, microbanks, microfinance focussed banks, and different types of savings and credit groups. Registered cooepratives play a smaller role in savings, as do pension schemes which serve a very small segment of the population. The largest provider of informal savings are *xitiques*, with ASCAs playing a minor role in comparison (some ASCAs have reportedly registered as formal entities, however this is not widespread). As can be seen in **Figure 81** below, when looking at market share of different providers by number of clients, *xitiques* overwhelmingly dominate, with more members than even the largest commercial bank has clients.

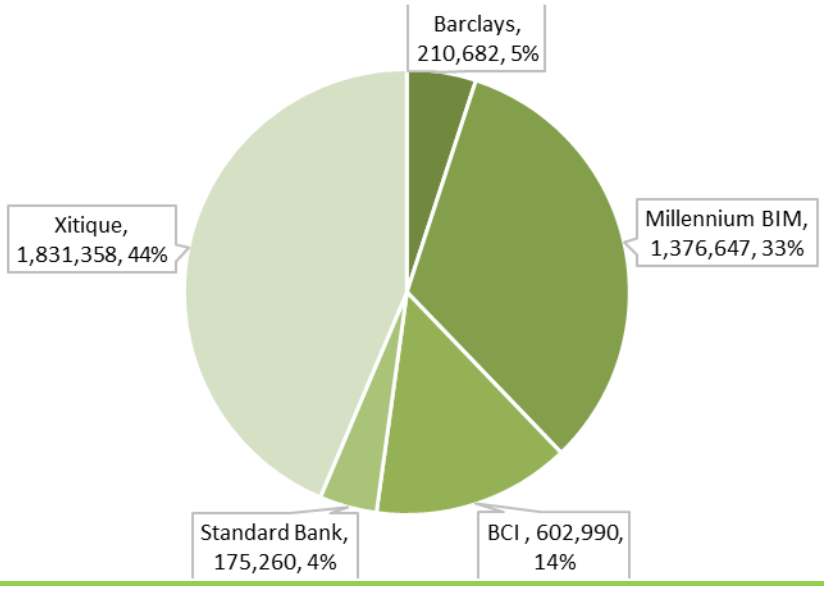


Figure 85: Comparison of client base for main formal providers and *xitiques*

Source: FinScope (2014), industry consultations, and financial statements

Commercial banks

Large banks dominate savings, but serve limited market. The largest three banks hold 82% of all deposits in Mozambique[266]. While the large banks are generally focussed on higher income individuals and corporate clients, with little interest in lower income markets, they do serve many of lower end market for deposits[267], (see **Section 5: Financial sector overview** for further discussion). According to industry consultations, Millennium BIM and BCI are able to attract more clients primarily due to their large branch networks and therefore better proximity to clients as compared to competitors. However, even larger banks struggle to retain deposits of formal employees. As discussed in **Section 6.1: Market for payments**, most formal sector employees who receive their salary via direct deposits into a bank account withdraw all of their funds as soon as they are paid.

Microbanks and microfinance focused commercial banks

Microbanks and microfinance focussed banks struggle to attract deposits. Given the dominance of the largest banks in attracting deposits, the smaller providers must compete for a small pool of remaining cash. Smaller providers find themselves with deposit values concentrated among only a few clients. Illustrative of this, during industry consultations a smaller provider shared that 1% of clients accounted for 64% of total deposit value, while 70% of clients account for only 2% of deposit value. This creates liquidity risk, as higher value clients are more likely to move as rates change. Individuals who regularly hold deposits tend to favour the larger banks. Part of this may be due to the fact that almost all government workers have their accounts with BCI and Millennium BIM, both of which have government ownership stakes. Therefore, almost all workers who receive salary via direct deposit do so through one of these two banks.

[266] BdM 2013 Annual Report
[267] As indicated by the FinScope usage figures, which extend beyond the upper-end of the market, plus in a number of qualitative interviews, where low-income individuals had a bank account with a large bank.

Payroll lenders not currently taking deposits. The two main payroll lenders were initially licensed only to provide credit. However, holding the highest tier license for a microbanks, the payroll lenders can be granted permission to take deposits. Doing so could enable payroll lenders to better serve their existing clients, while also create an opportunity to reach new target markets.

Savings and credit groups

Formal groups reach some lower income populations. Cooperatives and associations generally aim to serve lower-income customers. Among lower income target markets, FinScope (2014) found that less than 200 000 (little more than one percent of the total adult population) used cooperatives. While some ASCAs are registered as savings and credit assocaitions, these also show low take-up. The majority of ASCAs are informal, and discussed in further detail below along with *xitiques*.

Pension schemes

Limited pension offerings. As discussed in **Section 5.1: Institutional landscape**, there are four closed and one open pension fund in Mozambique, and five pension fund managers (ISSM, 2014). The main private and public sector schemes are both pay-as-you-go, and cover disability and provide income for retired workers and surviving family members[268].

Electronic money institutions (MMOs)

Mobile money operators not offering savings products, but allow store of value. mKesh and M-Pesa are both licensed as credit institutions. One has been licensed to take deposits, and the other has a longer term objective of eventually taking deposits. In practice, the balance in a mobile money account serves as a store of value and, hence, can be regarded as a savings product. However, neither provider has yet launched an interest-bearing product. In part, regulations are not clear as to whether MMOs are permitted to do this.

Mobile money pilot programs for savings groups show potential. mKesh has explored offering a low-value savings option. However, there is no indication as to rollout or success of this initiative. mKesh also participated in an initiative to link ASCAs with financial institutions. This involved a partnership with a commercial bank to provide the deposit function. While there was some initial success, the programme did not last. Nonetheless, these efforts show provider interest in exploring innovate ways to extend deposit products.

Informal savings groups

Xitiques most common savings mechanism. FinScope (2014) reports that over 1.8 million Mozambicans are members of *xitiques*. This far exceeds the number of customers at any of the largest banks. For example, Millenium BIM, which has the most customers of any bank in Mozambique, has a little over 1 370 000 customers. As previously discussed, many individuals with access to a bank still use informal services, including *xitiques*. It is possible, then, that even large banks lose some deposits to *xitiques*.

[268] USAID SPEED: http://www.nathaninc.com/sites/default/files/Executive%20Summary%20-%20Mozambique%20financial%20sector.pdf

Xitiques offer flexible options for resource intermediation. *Xitiques* are voluntary groups formed by individuals with similar savings needs and similar factors such as being part of the same family, the same social network, or colleagues involved in similar businesses. People also form a *xitique* based on similar objectives and preferred structures (such as contribution amount, cycle, group size). Generally, each member of the *xitique* makes the same monetary contribution at a specific time and place to a member designated as the group leader. Each member gets a turn to receive the pooled funds on a rotational basis.

Xitiques are formed based on needs of the members. *Xitiques* can be structured to meet a variety of savings objectives. For example, some daily *xitiques* are formed by market traders in order to provide liquidity for the purchase of business stock. Family *xitiques*, however, generally have different saving objectives, longer savings cycles, and likely more flexible terms. A *xitique geral,* sometimes considered a more individualistic savings option, refers to a structure by which a collector visits each member of the *xitique* individually to gather contributions. All of the members might receive a payout at the end of the payments cycle. However, some of the ordinary group savings *xitiques* also used a system whereby a collector gathers contributions individually, so this feature might not be determinative. During qualitative fieldwork, respondents did not distinguish between different types of *xitiques,* and instead used the term "*xitique*" to refer to all types.

The diagram below summarises the main reasons for joining a *xitique* highlighted by FinScope (2014):

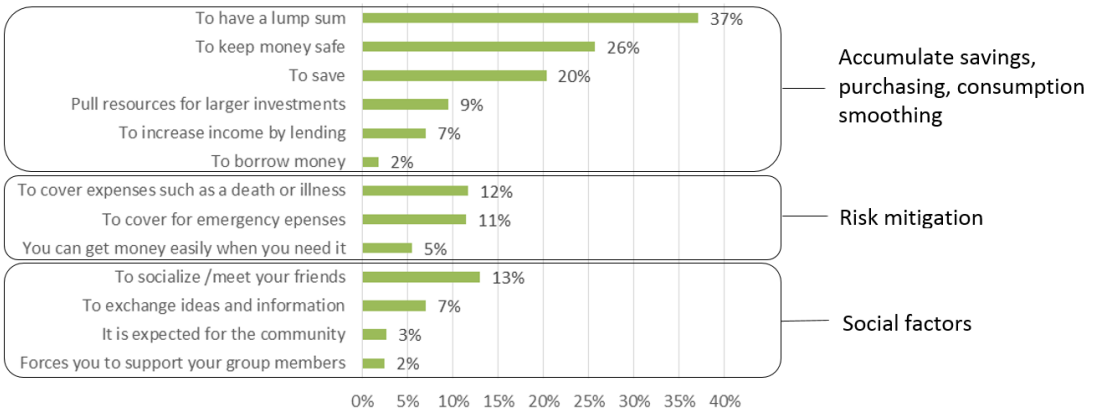


Figure 86: Percentage of adults reporting main reasons for joining a *xitique*

Source: FinScope (2014)

> *"The only way to save money is through the xitique."*
>
> Female, Age 66, Matola (sells traditional medicine)

Xitiques also play a large role in risk mitigation. Twelve percent of respondents joined a *xitique* to be able to cover emergency expenses, and 11% joined so that they could meet expenses related to death or illness. It was also reported during multiple fieldwork interviews that *xitiques* will sometimes let a member take their turn early if they are facing an emergency. One respondent explained that her *xitique* was considering adding a longer term savings plan to accumulate larger sums for covering more costly emergencies. This would require contributions in addition to the ordinary cycle, and this would be kept as a separate fund. *Xitiques* thus play an important role in intermediating resources to meet the varying, and

sometimes emergency, needs of members.

> *"When I am in trouble, I can take an advance (from the Xitique)"*
>
> Male, 30-40, Maputo

Social factors drive some individuals to join a xitique. While socialising itself is a strong driver (reported by 13% of respondents as a reason to join a *xitique*), there is awareness that *xitiques* serve as a mechanism for social cohesion. This is reflected in the fact that 7% of respondents joined a *xitique* for sharing ideas, 3% joined because the community expected this, and 2% explicitly recognised *xitiques* as a support system. This social function was further confirmed by interviews with formal providers. However, as the dominant reasons for joining a *xitique* relates to meeting particular needs, *xitiques* are primarily a means of building a social safety-net by establishing trust and expectations of recipcrocity within the group.

ASCAs play minor role. ASCAs are primarily driven by donor organisations, which sometimes provide an initial sum of money to seed savings groups, which tend to then act as a typical rotating savings group in which members make regular contributions. The donor organisations then provide some basic financial education, with the intention that the groups can then be self-sustaining. While these groups can serve as a mechanism for providing credit to members, in practice these are primarily savings vehicles. One formal provider that works with ASCAs reported that in Zambezia, MZN 3 million is intermediated annually among 10 000 members. However, such ASCA activity is limited. As shown in **Figure 87** below, of those individuals who save in a group scheme, 88% do so through a *xitique* and only seven percent save through an ASCA. According to one interviewee, it has been observed over time that some ASCAs transition to behave like *xitiques* and tend not to accumulate savings or extend credit.

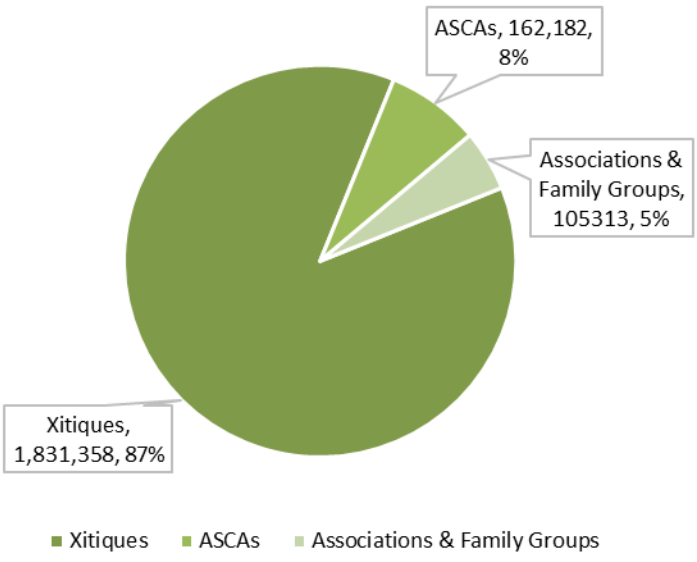


Figure 87: Comparison of membership in group savings mechanisms

Source: FinScope (2014)

Little indication as to the amount of savings captured in savings groups. While there is no indication that *xitiques* or other savings groups widely use formal financial institutions, there are instances where, for example, some ASCAs have been known to use formal institutions for deposits. During industry consultations, an anecdote was recounted whereby, in one instance when ASCAs started making deposits at a bank branch in Chimoio, the branch's deposits

quickly doubled. However, there is no reliable estimate of the total value of funds intermediated through *xitiques*, ASCAs, or other group saving mechanisms.

6.3.4. Products

Variety of products, but fairly similarly structured. **Table** 24 provides an overview of products available in Mozambique that can be used for savings or store of value. For purposes of this discussion, the main focus is on basic interest bearing savings accounts (unless otherwise stated) and includes microbanks, microfinance focused banks, commercial banks and mobile money accounts offered by MMOs. There are no big variations in terms of types of products, interest rates or eligibility criteria across providers. The two exceptions are for salary accounts offered by larger banks, and savings accounts offered by the larger banks that have minimum balance or deposit requirements that far exceed what most Mozambicans can afford. Some of the microfinance focussed banks also have relatively high minimum balance requirements that could exclude lower-income earners.

Type of service provider	Type of product	Interest rate	Term of deposit	Minimum balance (MZN)	Minimum opening amount (MZN)	Proof of employ-ment	Fees
Microbanks and microfinance focussed banks	Current account	0%	Flexible		100 MZN - 200 MZN	Not required	ATM withdrawal: 3 MZN - 12 MZN Payments: 5 MZN
Commercial Banks	Current account	0%	Flexible		500 MZN - 2,000 MZN	Required	ATM withdrawal: 8 MZN - 15 MZN Payments: 30 MZN - 55 MZN
MMO	M-Pesa and mKesh	0%	Flexible			Not required	Withdrawal: 3 MZN – 70 MZN Payment: 1 MZN – 100 MZN
Microbanks and microfinanced focussed banks	Saving Account	2% - 7% p.a	Flexible	300 MZN - 500 MZN	100 MZN - 500 MZN	Not required	ATM withdrawal: 6 MZN - 12 MZN Payments: 5 MZN
Commercial Banks	Saving Account		Flexible		1,500 MZN - 10,000 MZN	Required	ATM withdrawal: 8 MZN - 15 MZN Payments: 30 MZN - 55 MZN
Microbanks and microfinance focussed banks	Special Saving Account	10%	12 months	500 MZN	200 MZN	Not required	
Microbanks and microfinance focussed banks	Term Deposit	7% - 17% p.a.	6 - 12 months	500 MZN - 3000 MZN	200MZN – 5,000 MZN	Not required	
Commercial Banks	Term Deposit	1.25% - 12%	1 year	10,000MZN	1,000 MZN - 50,000 MZN	Required	
Commercial Banks	Term Deposit	5% - 11% p.a.	1 - 3 years	50,000 MZN - 100,000 MZN	50,000 MZN – 2,500,000 MZN	Required	

Table 24: Savings product features in Mozambique based on indicative sample of products

Source: Industry consultations, product scan

Interest rates comparable between larger and smaller providers. The products included in **Table 24 i**ndicate that there does not appear to be a major distinction between interest rates offered by larger providers and those offered by microproviders (see **Annex H**: Overview of savings and current account features for overview of savings and current accounts available). Small providers offer products with rates ranging from 2% to 17%, depending on the term of deposit. Interest rates offered by large providers generally range from 5% to 16.5%. However, MMOs do not offer interest. However, only 5% of Mozambicans considered interest rates to be a major factor in deciding where to save (FinScope, 2014).

Fees comparable and low for withdrawals, but vary for payments. No savings or current accounts observed have monthly service fees[269]. However, a number of large and small providers imposed ATM fees for withdrawals[270]. Most providers had ATM withdrawal fees that set withdrawals outside of network at approximately double the price for withdrawals in the network. These generally range from between MZN 6 and MZN 8 for within the network and between MZN 12 and MZN 15 for outside the network. Alternatively, MMOs start at MZN 3 for withdrawals, but can reach as high as MZN 70 depending on the amount withdrawn. There was not a pattern of a discernible difference between the larger banks, smaller microfinance focussed banks and mobile money providers. However, there is a more significant difference for electronic funds transfers. Microfinfnace focussed banks charge on average MZN 5 compared to large banks which charge between MZN 30 and MZN 55. Mobile money providers charge as low as MZN 1 and MZN 3 for payments within the network, but can reach as high as MZN 100 depending on the size of the transaction and if it is outside the mobile network.

Requirements for minimum opening balance generally high. Unlike with credit, most savings products do not have a minimum income requirement. However, most savings and current accounts require a minimum opening balance. Minimum opening balances required by microfinfnace focussed providers tend to be low, ranging from MZN 100 to MZN 500. However, two of these providers offer fixed-term savings accounts with minimum opening amounts of MZN 3 000 and MZN 5 000 respectively. This may be out of the reach for many Mozambicans, and an indication of microfinance focussed providers moving upstream. Larger banks tend to have even higher minimum opening balances. While some offer savings accounts with relatively low minimum opening amounts for short term and flexible products, ranging from MZN 500 to MZN 2 500, most fixed term options have much higher requirements ranging from MZN 10 000 to MZN 50 000. The highest observed minimum opening amount identified is MZN 2 500 000.

Eligibility criteria prevent most Mozambicans from accessing formal savings options. At the time of research, all providers (whether large banks or microproviders) required that customers provide identification and proof of address in order to open a savings or current account. In addition, all of the large banks require proof of employment in order to open a savings or current account. This is not, however, required by microfinance focussed providers.

Term lengths similar across providers. Term lengths with microproviders generally range from six months to three years. Large institutions have similar term lengths, although longer terms are available. However, because most Mozambicans save for consumption smoothing or to cover emergency expenses, term lengths such as this can be a deterrent for take-up of formal services as individuals might not be comfortable with only limited access to their funds. While

[269] This is due to Aviso 5, discussed in **Section 3: Regulatory and Policy Environment**
[270] Deposit fees were not observed in analysing products, though it is known that deposit fees are charged

current accounts or transaction accounts can be used for store of value, during industry consultation multiple providers indicated that many of these accounts lie dormant. In addition, FinScope 2014 found that many people saving also access informal options. There are indications, then, that access to formal savings is not sufficient for people to actually use the product.

Mobile money offers safe store of value. As mentioned, both mobile money operators allow safe store of value functionality, although neither offers interest. With M-Pesa, when funds are transferred out of the network they will expire in 7 days if not cashed out. However, transfers by registered customers within the M-Pesa network do not expire and can technically be kept in the account as long as the customer wishes, although regulations may require the account to be cleared every five years. mKesh has explored the possibility of offering low-value accounts that allow users to store up to a limit of MZN 3 000 (mKesh consultation, 2013). Such an offering could be leveraged to extend savings options to excluded populations. This is particularly true for rural areas where adults have demonstrated some demand for safe store of value products. However, regulatory clarity is needed in order for MMOs to offer interest on such products.

Various xitique "product" modalities. **Table 25** below summarises the prevalence of various contribution amounts and cycles among *xitiques* as captured by FinScope (2014). This illustrates the flexibility of *xitiques* to be shaped in a manner that best suits the needs and means of members.

Xitique modalities				
Contribution Cycle	Daily	Weekly	Monthly	Other
50 or less	3%	7%	1%	0%
51 to 100	2%	8%	4%	0%
101 to 200	0%	6%	4%	1%
201 to 500	0%	5%	11%	0%
501 to 1000	0%	2%	12%	0%
More than 1000	0%	1%	20%	1%

Table 25: Common contribution amounts and cycles for *xitiques*

Source: FinScope (2014)

6.3.5. Barriers

Lack of surplus cash main barrier to saving. As can be seen from **Figure 88**, the primary reason that Mozambicans do not save is lack of surplus money (47%), whilst not having any income at all is another important reason for not saving (18%).

> *"I don't have enough money for the xitique. The little money I have, I use for my daily needs."*
> - Female, Matola, 13 July 2013 (sells traditional medicine)

Industry consultations found that microfinance focussed providers are aware of this challenge, and recognise that many of their clients simply do not have excess cash to sustain deposits. In some communities, there simply is not enough money to circulate for everyone to use. The fact that 20% of *xitique* members contribute over MZN 1 000 on a monthly basis (as shown in **Table 25** above) is an indication that a sizeable portion of *xitique* members likely earn

relatively higher income than most Mozambicans.

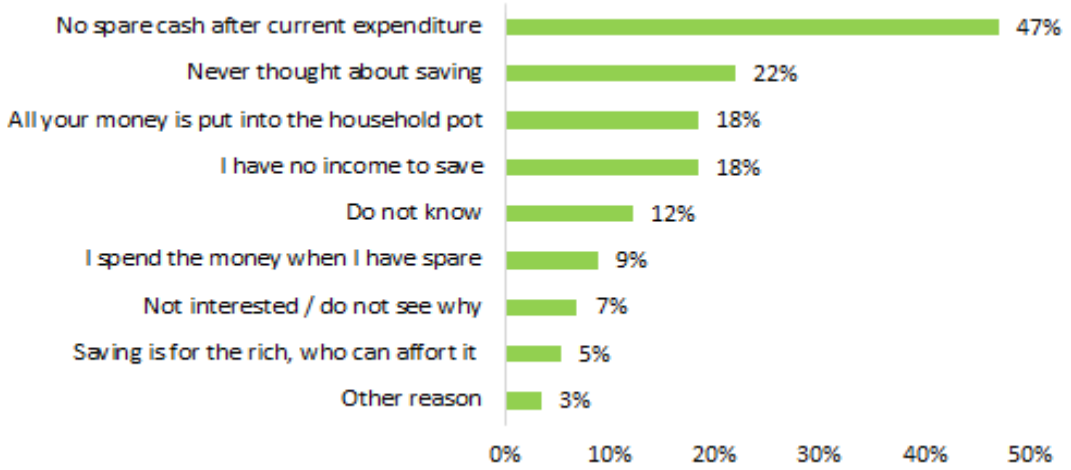


Figure 88: Reasons for not saving[271]

Source: FinScope (2014)

Proximity a major barrier to formal savings. **Figure 89** shows that of those who report saving, 43% said that proximity was one of the main factors when considering where to save.

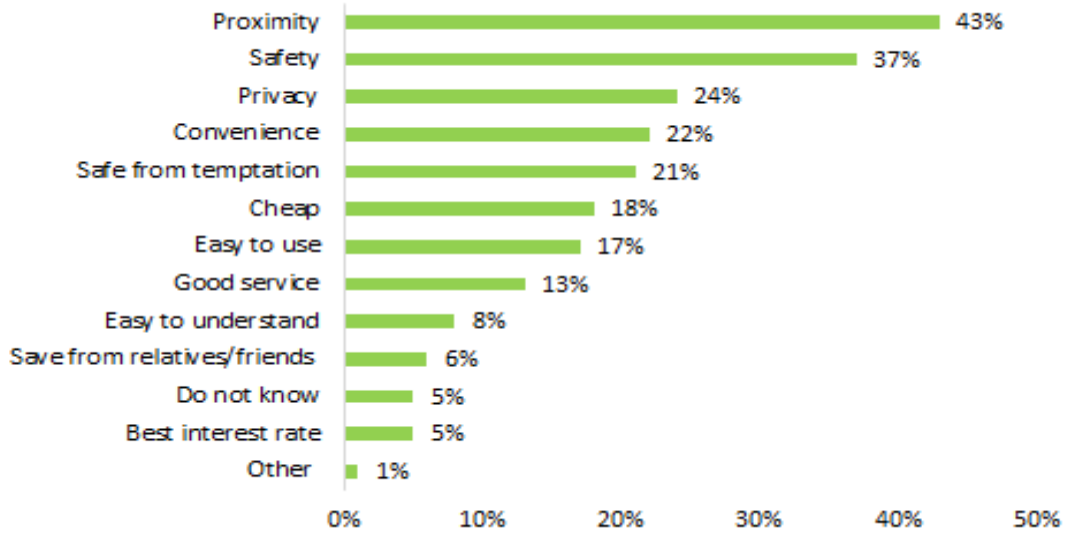


Figure 89: Reasons for choosing savings option

Source: FinScope (2014)

As mentioned previously, Millenium BIM and BCI have the largest branch networks, and therefore tend to be the most physically accessible banks. Consequently, they have many more customers than other providers. However, they are still not sufficiently accessible for most Mozambicans. In one consultation, a formally employed lodge worker shared that she

[271] This was a multiple response question in FinScope, therefore the percentages will not sum to one hundred and cross comparison is difficult in numerical terms due to large overlaps. It is however possible to make ordinal comparisons.

prefers to be paid in cash rather than direct deposit, because she does not want to spend the time or money travelling to an ATM to withdraw her salary. Consistent with concerns about proximity, 22% of Mozambicans consider convenience for accessing funds to be a major factor in choosing where to save. While proximity can be a barrier to accessing formal providers, the cost of transport to reach them also discourages use. This is part of the reason why *xitiques* have more members than either Millenium BIM or BCI have clients.

> *"It became complicated with BIM, if I make a profit, I go to BIM and make a deposit, but BIM is located in town and I use my profit money as fare to get to town."*
>
> Female, 20-30, Inhambane

Eligibility requirements exclude many Mozambicans. As is the case for the other product markets as well, KYC requirements may prevent many people from accessing formal savings products, as many lack the requisite identity documents. Requirements beyond identification imposed by individual providers, most notably for proof of income or address, put formal savings products beyond the reach of the majority of Mozambicans. For example, not even all formally employed workers can provide a salary slip.

Minimum opening balance requirements not a major barrier. The lower value minimum opening amounts should be relatively affordable for many Mozambicans. During qualitative fieldwork, one respondent indicated that she regularly deposits MZN 100 in her account with BCI. In addition, the lower-end of the minimum balance requirements tied to formal savings products are lower than many contributions made to *xitiques*. FinScope found that over 70% of those saving in a *xitique* contributed MZN 100 or more per cycle, while almost 26% contribute MZN 1 000 or more. However, this does not take into account the opportunity and direct cost of accessing the savings mechanism, which can be considerable given the lack of infrastructure and proximity to formal service providers.

Fees do not appear to be a main barrier. The product analysis indicates that fees for statement requests and ATM transactions do not show much variation, and do not appear to be high. Electronic funds transfer fees, however, are noticeably higher with larger banks, though affordable options are available with smaller, microfinance focussed banks. In general, these fees do not appear high enough to pose a major affordability barrier. However, when the vast majority of *xitiques* do not impose any costs, even low-cost products will be less enticing.

6.3.6. Regulatory issues to consider

Regulatory proportionality a key barrier. The regulatory issues for Savings are similar to those for credit, such as the lack of regulatory proportionality despite tiered microcredit licenses. This means that even microbanks and microfinance focussed banks must incur the same costs as large commercial banks for compliance with the same branch banking, KYC, and other regulations.

Lack of clarity for mobile money. The main regulatory issue specific to savings, is that there is no clarity regarding the ability of MMOs to offer interet on savings products. While regulations provide that the total float for MMOs cannot drop below the total value of contributions, regulations are ambiguous as to whether the float can be more than contributions. In other words, it is not clear if MMOs can invest float to earn interest for customers. Similarly, while MMOs can offer safe store of value, there are also some indications that the amount must be

below a certain threshold. However, there is no clear regulatory requirement for this.

6.3.7. Gaps & opportunities

This section has shown that many Mozambicans do save, often informally so, and that even more express a need for saving. The target market needs highlighted in **Section 4: Target market analysis** and the use cases discussion above suggest that there are a few notable product and provider opportunities, which are summarised at a high level in **Table 26**, below.

Opportunity	Relevant target markets	Prerequisites/challenges to unlock the opportunity
Safe store of value	All target markets	With little surplus cash, most Mozambicans require flexible safe store of value options with quick and easy access to their funds to cover emergency expenses or to smooth consumption. Most formal savings options do not currently provide this kind of access. Even without term lengths are often inconvenient because customers must be able to reach an ATM or bank branch in order to access funds. Therefore, appropriate savings products must mimic the convenience and appropriateness of *xitiques*.
Mobile money	All target markets	Allowing mobile money operators to accept deposits could greatly expand the reach of formal savings products to thinly served urban markets, as well as rural areas. In the alternative, mobile money partnerships with banks and microfinance focussed providers could also help facilitate deposit taking.
Payroll lenders branching into deposit-taking	Salaried workers, government workers	Payroll lenders have demonstrated innovative and affordable roll-out of credit products. However, they do not yet take deposits. Taking deposits could enable payroll lenders to better serve existing customers, while opening the door for reaching new target markets.
Group accounts	All target markets	Group products can help provide greater security and efficiency for *xitiques*. However, despite interest by providers, banks banks have not yet been successful in serving *xitiques*. It is possible that attempts have not been widely successful because they either target rural savigns groups, whereas *xitiques* are concentrated in urban areas. Or, it might simply be that products marketed to *xitiques* lack convenient access or can not easily accommodate the variety of *xitique* transaction patterns. Tailoring products that can facilitate *xitique* behaviour could attract potential customers.

Table 26: Summary of savings opportunity by target market

Source: authors' own

In order to make such opportunities a reality, there are various elements shaping the enabling environment that must be addressed.

Formally included, but thinly served market most immediate opportunity. Many banked

customers also participate in informal savings mechanisms. More appropriate formal products can most readily reach this market fairly quickly, as most access barriers have already been overcome.

Alternative distribution central to market penetration. In order to reach excluded markets, alternative distribution channels are essential. As indicated in **Section 6.1: Market for payments,** without cash points where customers can withdraw or deposits funds, safe store of value or other savings products will remain inaccessible. While mobile money can leverage the large client base of the mobile network operators, without expanding the payments footprint and payments interoperability, mobile money is likely to have only limited success.

Regulatory clarity needed regarding deposit taking, and interest rates. Another necessary factor to fully leverage the potential of both MMOs and payroll lenders, is clarity in regulations permitting both types of providers to take deposits, and also allowing them to offer interest-earning savings products. While payroll lenders are technically permitted to take deposits, in practice they must receive permission from the BdM in order to do so.

6.4. Market for insurance

Why is insurance relevant in Mozambique? The high levels of poverty and high incidence of climatic risks characterising Mozambique suggest that Mozambicans are very vulnerable to risks and, hence, that insurance has a strong in-principle value proposition at the individual/household level. As institutional investors, insurers can also play an important role in macro level intermediation and the development of the financial sector. However, as the analysis below will show, the same country conditions that create an imperative for insurance also constrain the prospects for insurance market growth at scale, with only limited inroads being made into the retail insurance market.

Market landscape. 2014 ISSM data[272] indicate that the Mozambican insurance market consisted of 16 insurers and one reinsurer in 2013[273]. Ownership structures include a mix of owners of Mozambican, South African, Malawian, Portuguese and Kenyan origins. Portuguese companies were the first to show interest in the Mozambique industry shortly after privatisation initiatives began in the 1990s. Other foreign players, all based in Africa, began entering the market from 2001. Total gross premiums reached MZN 7073.2m (approximately USD 203m), representing 1.5% of GDP in 2013. Although this represents 31% premium growth over 2012, it remains a small market in an absolute sense[274].

The box below summarises the key findings on the insurance market.

Key issues: market for insurance

[272] As contained in the PowerPoint presentation titled "Relatorio do Mercado de Seguros de 2013", compiled for Ms Francelina Nhamona, Directora dos Servicos de Estudos e Estatistica, 2 December 2014.
[273] Since the time of research, there are indications that a new dedicated microinsurer might be established
[274] Although the level of insurance penetration compares favourably with peer countries like Zambia, Tanzania and Angola, it lags behind that of countries such as Malawi and Kenya. For comparative figures, see World Insurance in 2010, No2/2011, Swiss Re Sigma Report. Calculated by dividing al direct premiums of life and non-life data from SwissRe (2010) by nominal GDP figures for 2010 obtained from the World Bank World Development Indicators database. Data is not available for years preceding 2007.

- The insurance market is characterised by extremely limited access to insurance, particularly outside major urban centres and amongst the informally employed. Even among formal sector employees and government workers, many remain unserved.
- Insurance companies are largely geared for the corporate market, with only a few instances of retail market innovation. The latter faces severe challenges.
- General insurance, largely vehicle insurance, dominates the corporate market, while credit life insurance is the most important line in the life market. Thus the existing market is driven largely by compulsory lines rather than voluntary take up.
- Some pilot projects are underway, that reach into the non-traditional market, e.g. for agricultural insurance, but success has not yet been established.
- Distribution is largely broker and bancassurance driven, with very limited use of agents. Distribution infrastructure is constrained, with limited industry skills and outreach capacity. Debit order constraints in the payment system also challenge premium collection.
- Overall, prospects for large-scale expansion of the client base into the lower, irregular income target markets are limited.

6.4.1. Insurance take-up

Very limited penetration. The overwhelming majority of the population is not served by insurance at all. Only three percent of adults in Mozambique have formal insurance cover. Apart from those Mozambicans with formal insurance, a further five percent have informal cover only (see **Figure 90** below)

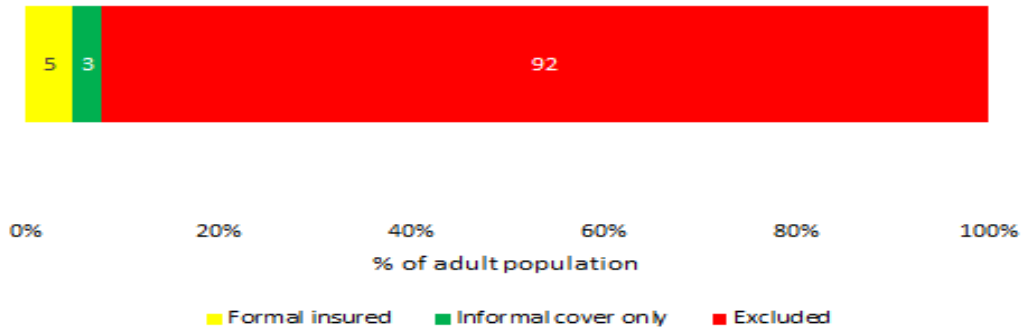


Figure 90: Insurance strand

Source: Finscope 2014

These usage figures are low, in regional terms. **Figure 91** compares available FinScope data in ten countries across SADC. Mozambique has among the lowest formal cover:

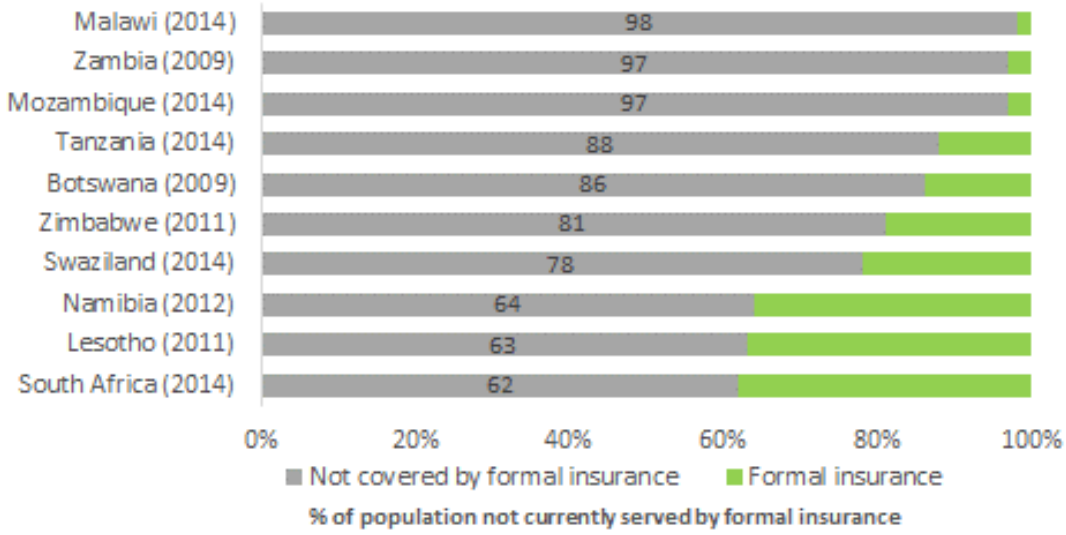


Figure 91: Percentage of population not currently served by formal insurance markets

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Highest reach among regular earning target markets. **Figure 92** below shows insurance uptake across target markets. Government and other salaried workers combined – the most affluent, urban and educated segments –represent three quarters (75%) of all retail insurance take-up in the country. FinScope analysis indicates that 42% of Government workers and 17% of other salaried workers have at least one type of formal insurance product. For Government workers, this is an increase from 26% in 2009. Their regular income profiles place these segments in the best position to pay a monthly premium. In contrast, those target markets with irregular income profiles have very limited take-up of insurance. For example, only two percent of microentrepreneurs have insurance, declining to as little as one percent of dependents, while none of those who earn a living in the agricultural sector indicated that they have formal insurance cover.

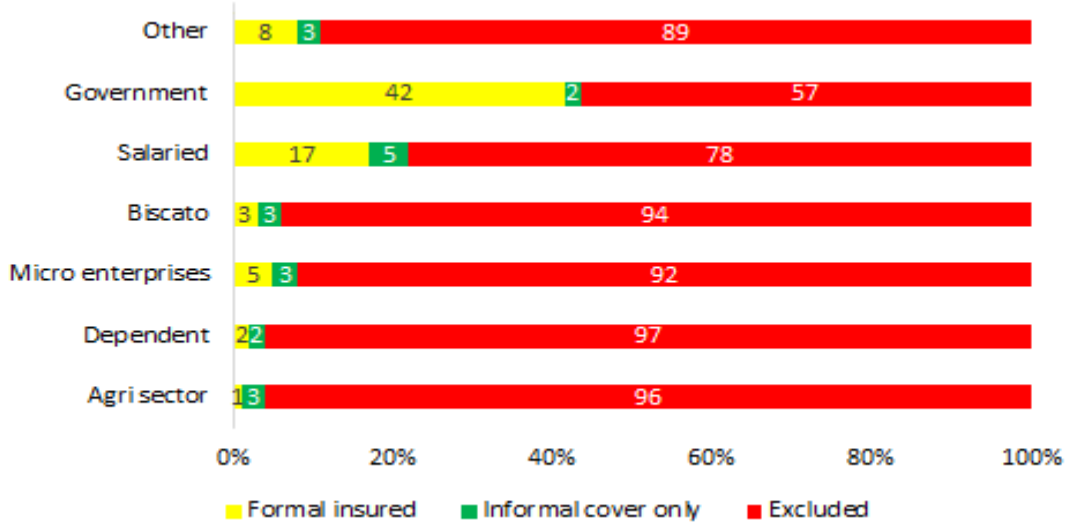


Figure 92: Insurance access strand across target markets

Source: Finscope 2014

Employer-provided insurance most often cited. As a result usage skews towards the formally employed target markets, the product policies that are most frequently cited in FinScope (see **Figure 93** below) are provided via an employer, including funeral insurance, retirement fund assurance, accident insurance and medical insurance. It is interesting to note that personal funeral insurance not offered by an employer is negligible in comparison.

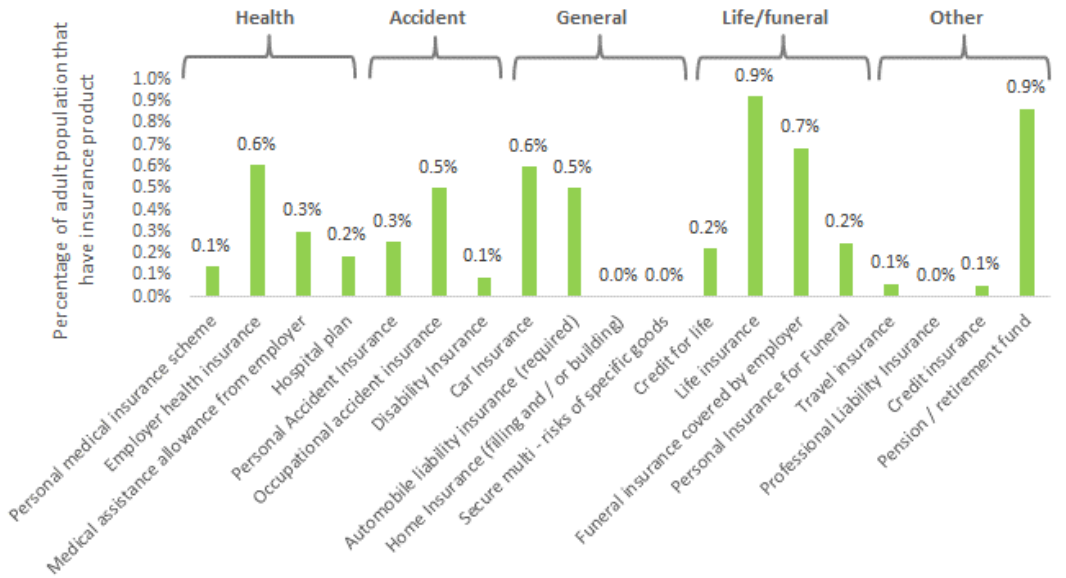


Figure 93: Take-up of insurance products

Source: Finscope 2014

Formal usage exceeds informal usage. Unlike other product markets, take up of formal insurance is higher than take up of informal insurance. Further, there is minimal overlap of those with both formal and informal insurance cover. Given the overall low takup of insurance generally (as shown in the figure above, no product has take-up of more than 0.9% of the adult population), this provides some indication that most Mozambicans do not rely on insurance

as a coping mechanism, and that further market development may be necessary in order for insurance to reach scale.

6.4.2. Use cases

This section outlines the use cases for insurance take-up as identified through the qualitative and quantitative demand-side research.

Covering costs related to illness. During urban and peri-urban focus groups held in Maputo city, Matola (Maputo province), Beira and Donda (Sofala province) conducted in 2011, 90% of participants ranked illness as the greatest risk that they face. Illness often requires respondents to leave their income producing activity, eiter in the case of their own illnesses, or when a family member is sick and requires tending by family member. In addition, large sums of money are required for unexpected payments for medication, hospitalisation and transport to reach hospitals[275]. In FinScope (2014), 34% of adults indicated an accident or serious illness of a family member as a risk that would affect household finances, while 40% singled out an accident or illness that prevents the main income earner from working as a primary risk.

Box 23: Main risks highlighted by 2011 qualitative fieldwork

"You only spend once when it comes to death, while disease can last one, two, or three years."
Informal trader, Mercado Central, Maputo City

"I would say that illness concerns us more. We prefer death because when it happens we have a 'one time' expense. With illness however, a person can be ill over a year and the loss is higher than with death. With death we will not let people remain unburied because anyone can help us but with illness, people stop helping because the debt gets big."

Group of farmers at Infulene Valley, Maputo Province

"When we are hospitalised we cannot run our business."

Informal trader, Bobole Market, Maputo city

Disaster risk is a front of mind concern in rural areas. Rural qualitative fieldwork has indicated that for those engaged in the agricultural economy, loss of land productivity and natural disasters are real risks.[276] Mozambique ranks third among the African countries most exposed to risks from multiple weather-related hazards, including floods, cyclones, droughts and related disease epidemics. The National Institute for Disaster Management (INGC) indicates that as much as 25% of the population is at risk from droughts, floods and cyclones.[277] Worldwide, Mozambique ranks 43 out of 173 countries for disaster risk[278]. The qualitative research abounds with anecdotes of lost agricultural productivity due to floods, damage by wild animals or other risks. This is confirmed by the quantitative analysis: at 49% of adults, a

[275] More information can be found in *Access to Insurance in Mozambique* (Cenfri 2012)
[276] MAP Mozambique qualitative fieldwork (July 2013).
[277] INGC (2009): Synthesis report. Study on the Impact of Climate Change on Disaster Risk in Mozambique. [van Logchem B and Brito R (ed.)]
[278] Alliance Development Works (2012): World Risk Report

weak or lost harvest is the risk most cited by respondents as a risk to household finances.

Death-related risks. A number of qualitative respondents – confirmed by supply-side consultations – mentioned that the risk of incurring funeral expenses is not as prominent as in some other Southern African countries. It is common to ask for contributions from the extended family and community and funerals tend not to be lavish. This is confirmed in FinScope (2014), with only 11% of adults indicating that the need to contribute to funeral expenses is a household financial risk. However, FinScope suggests that the death of a breadwinner is a major concern. It was cited by 47% of adults for its impact on household finances.

Asset-related use cases. The other prominent risks that the urban focus group respondents cited in order of their perceived risk and financial impact were loss of job/bankruptcy and accidents. In FinScope, prominent further use cases relate to loss or damage to property or assets due to floods, fire or theft.

To access credit. The final use case, not explicitly cited in the qualitative or quantitative, but clear from the supply-side analysis, is insurance to enable access to credit. This applies to insurance sold on the back of credit as a condition by credit providers.

Ex post risk coping mechanisms most common. The 2011 qualitative research suggested the respondents mostly use "after the fact" coping mechanisms, should a risk event occur. This includes borrowing or asking for contributions from family and friends, absorbing the costs by drawing on business floats or cutting down on household expenses, or drawing down on any available savings. This was confirmed by the 2013 qualitative fieldwork. For example, one respondent whose crop was destroyed mentioned that he simply had to "make do", and professed the "power of work" to overcome adversities. In some instances, people would make provision upfront (ex-ante coping mechanisms) by belonging to a *xitique* (see **Section 0** for more information on *xitiques*) or setting aside money for lumpy or emergency expenses such as healthcare. The qualitative research indicated that few people even know of or consider insurance as a way of coping with risk.

This is confirmed by the quantitative demand-side data. FinScope (2014) indicates that selling something to raise funds is the predominant risk coping strategy across the various risks, followed by borrowing money and using savings. In line with the very low usage figures, only a very limited number indicated insurance as a risk coping strategy, the highest being for theft, fire or loss of a car or vehicle (indicated by five percent of adults).

6.4.3. Provision of insurance

This sub-section considers the supply of insurance in Mozambique in terms of players, distribution and products, considering the key trends and challenges.

Provider landscape shaped by historical factors. Following Mozambique's independence in 1975, a period of extensive nationalisation ensued until 1987. A new state-owned insurer, EMOSE was formed, but the ensuing civil war hampered the development of the insurance industry. In the early 1990s, as part of the strategy to end the civil war, the government of Mozambique initiated a process of political and economic reforms via the Economic Recovery Programme (PRE), with a series of laws formulating objectives for privatisation. In terms of

the economy, a process of economic restructuring and market liberalisation was initiated. For the insurance sector, this lead to the termination of the state monopoly and creation of space for the re-emergence of private sector insurance companies and the unbanning of insurance brokerage services. It was during this period that the insurance sector saw the entry of two private insurers, Seguradora Internacional de Moçambique ("SIM") and Companhia Geral De Seguros De Mozambique ("CGSM").

SIM, until recently the only bank-owned insurer, is owned by Millennium BIM (the largest commercial bank in Mozambique). CGSM entered the insurance market in Mozambique in 1993, becoming a subsidiary of Global Alliance Holdings in 2001 and subsequently changing its name to Global Alliance Seguros in 2006 ("Global Alliance" or "GA"). Despite its composite license, Global Alliance only started to underwrite life insurance in 2010.

Large-scale recent entry. Since then, a number of additional insurers have entered, all of them with foreign links. In 2013, there were 16 insurance companies (four life insurers, nine non-life insurers and three composite insurers), five pension fund management entities and one reinsurer in Mozambique (ISSM, 2014). Half of the licenced insurers entered since 2010[279]:

	Insurance Companies	Type of License	Start date	Ownership Structure/origin
1	Empresa Moçambicana de Seguros (EMOSE)	Composite	1981	80% government owned; 20% employee shares (Mozambican ownership)
2	Seguradora Internacional de Moçambique (SIM) – also known as Millennium Seguros	Composite	1992	90% owned by BIM, (Portuguese ownership)
3	Global Alliance-CGSM (GA)/ Global Alliance Seguros	Composite	1993/ 2001[280]	100% share capital owned by Absa (South Africa, since 1 September 2011.
4	Hollard Moçambique Companhia de Seguros	Non-life	2001	86% owned subsidiary of Hollard Insurance South Africa (Source: 2009 annual report)
5	Hollard-Vida Companhia de Seguros, SA	Life	2008	
6	Moçambique Companhia de Seguros, SA (MCS)	Non-life	2001	Main shareholder is Lusitania (Portuguese insurance company) is a principal shareholder.
7	Companhia de Seguros da Africa Austral, SA (Austral)	Non-life	2008	100% privately owned (Mozambican ownership)
8	Real Compahia de Seguros, SA (Real)	Non-life	2010	Subsidiary of REAL Kenya with minority local shareholders
9	Tranquilidade Companhia de Seguros Vida, SA	Life	2012	Portuguese origin, ownership structure unknown.
10	Tranquilidade Companhia de Seguros, SA	Non-life	2012	Portuguese origin, ownership structure unknown.
11	Companhia de Seguros Indico, SA	Non-life	2012	Ownership structure unknown
12	NICO Vida – Mocambique Companhia de Seguros, SA	Life	2012	51% - NICO Holdings Limited 49% - Local through IPS Holdings Lda -

[279] Note: ownership structure information is as per the 2012 Mozambique Access to Insurance diagnostic. No updated data was available on ownership at the time of drafting.

[280] CGSM was established in Mozambique in 1993. In 2001, the company was acquired by Global Alliance and subsequently changed its name to Global Alliance Seguros from 2006.

	Insurance Companies	Type of License	Start date	Ownership Structure/origin
				49% [281]
13	Phoenix Seguros, SA	Non-life	2014	Unknown – parent company is East African insurer with presence in 8 countries (Kenyan origin)[282]
14	Diamond Seguros	Non-life	2014	Main shareholding is Zimbabwean[283]
15	Fidelidade Seguradora, SA - Vida	Life	2014	Portuguese insurer with presence in Angola
16	Fidelidade Seguradora, SA – Nao Vida	Non-life	2014	Portuguese insurer with presence in Angola
17	MozRe	Reinsurer	2007	JV – Government of Mozambique investment wing (20%); Continental Re Nigeria (19%), EMOSE (10%), Malawi Re (51%)

Table 27. List of the authorised insurance companies in the Mozambique market

Source: ISSM 2014 primary source; other sources as per footnotes

Non-life players most prominent. Of the 16 insurers, there is only one dedicated life insurer (NICO Vida) without a non-life sister company. Companies tend to enter the market by underwriting non-life business and commence life business thereafter. This has been the case for both Global Alliance and Hollard, two of the leading four companies. The shift to life business can be linked to growth in credit life business on the back of growth in retail lending by finance institutions.

The following diagrams indicate the latest official market shares for the non-life and life industries, respectively:

[281] Source: NICO Mocambique Vida Companhia de Seguros SA, 2012 (NICO Mocambique Vida Companhia de Seguros SA).
[282] http://phoenixassurancegroup.com/
[283]Nicoz Diamond, Zimbabwe's largest short term insurance company, and the ABC Bank, hold 40 per cent of the shares. The largest Mozambican shareholder is businessman Antonio Costa with 20 per cent. Source: http://www.thezimbabwean.co/news/africa-news/72286/mozambique-new-insurance-company-launched.html

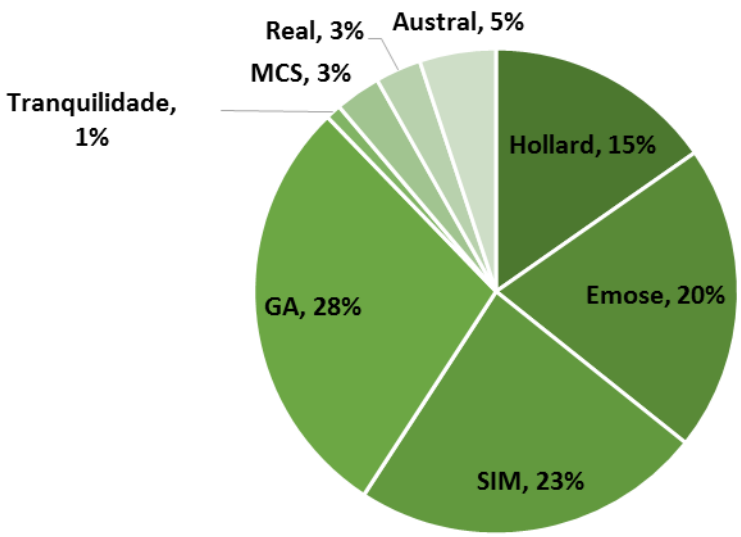


Figure 94: Market shares: non-life insurers

Source: ISSM 2014

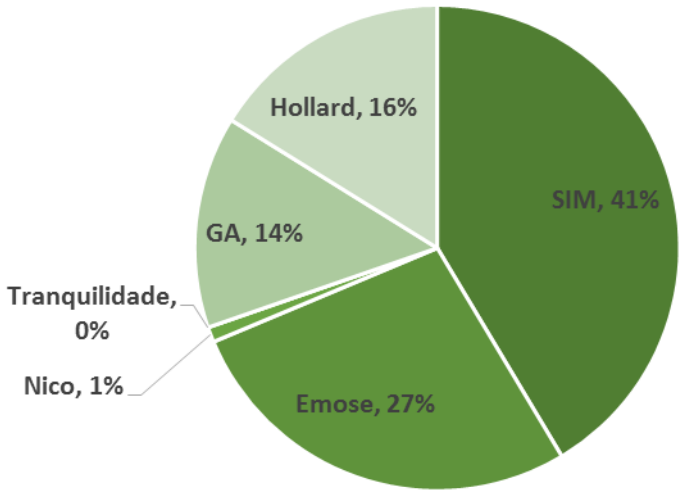


Figure 95: Market shares: life insurers

Source: ISSM 2014

Traditional players retain strongest position in non-life market. Global Alliance, SIM and EMOSE together have a market share of more than 70% of the non-life market, with Hollard accounting for a further 15%. The other non-life insurers have a combined market share of only 12%. Thus the more traditional players have largely retained their market positions, with new players vying for position and growth.

New entrants growing the life market. SIM is still the largest life player, but its market share has been reducing over the years, down from 75% in 2008 to 59% in 2010, 43% in 2012 and

41% in 2013 (see **Figure 95**). The major contributor to this was the entry of Hollard (South Africa) to the life insurance market in 2010 and the increase in life premiums from Global Alliance. However, Hollard Vida's entrance did not result in a decline in SIM's absolute portfolio of clients, but rather a growing market. SIM still maintained the bulk of its book which comes from an exclusive bancassurance arrangement through BIM. Industry consultations suggest that official market share information is not an accurate reflection of market dynamics (as some companies may continue to report inactive policies) and that profitability should also be considered (see performance analysis below).

Loosely defined informal provision. The usage discussion indicated that informal cover is lower than formal (5% formal versus 3% informal). Amongst others, informal cover (as captured in FinScope) comprises funeral associations, cover through a savings scheme, an agreement with a church to cover risks or "other" informal funeral cover, including funeral cover provided informally via an employer. The extent to which these categories cover insurance-like risk pooling is not clear, but it is clear that there is no defined single category of informal service providers as is for example the case on the market for credit with *agiotas*.

Xitiques fulfilling informal risk-pooling role. It is important to note that the 3% of adults with informal cover does not include members of *xitiques*, to which 12% of the adult population belong (up from 6% in 2009). *Xitiques* primarily emphasize savings (see **Section 6.2**), and hence are not included in informal insurance cover. However, qualitative research did suggest that *xitiques* provide some support in terms of risk mitigation, either through a loan, shifting turns so a member can go earlier, or collecting donations from members which does not have to be paid back. Further, some *xitiques* are formed for the purposes of covering funeral expenses. Such *xitiques* are generally formed by families and tend to be long-term. Although it is not known whether all *xitiques* and all members of *xitiques* have access to these risk mitigation benefits, it is likely that actual informal risk mitigation as captured in the insurance strand is therefore higher than only 3% of the adult population.

Performance

Limited industry capacity. **Table 28** below provides an overview of the staff and outreach capacity (number of registered agents and representatives) of insurers as indicated in the 2012 insurance diagnostic study. It is clear that both professional and distribution capacity is very limited. The MAP diagnostic consultations indicated that capacity remains a key challenge.

Insurance company	No. of Employees	No. of local actuaries	No. of agents	No. of representatives
Empresa Moçambicana de Seguros (EMOSE)	368		30 (incl employed)	n/a
Seguradora Internacional de Moçambique (SIM)	138	1	n/a	n/a
Global Alliance-CGSM (GA)/ Global Alliance Seguros	78		n/a	n/a
Hollard Moçambique Companhia de Seguros /Hollard-Vida, SA (probably joint with above)	46, including 7 for Hollard Vida		n/a	n/a

Insurance company	No. of Employees	No. of local actuaries	No. of agents	No. of representatives
Moçambique Companhia de Seguros (MCS)	25		20	n/a
Austral Seguros, SA	37		n/a	n/a
Real Insurance	15		3	n/a
Mozre	13			

Table 28. Staff and outreach capacity of insurers

Source: Company annual reports (2010) and industry consultations (2011)

Lack of capacity constrains innovation. The very limited staff and agent capacity presents challenges for continued growth of this sector and its expansion beyond major urban centres. Recent industry consultations suggest that megaprojects currently use international brokers and insurers as even the biggest local insurers do not hold enough capacity to serve them. Furthermore, for some insurers, organic growth (for example credit life products increasing at the same rate as credit rollout) already exceeds the internal capacity for growth. This makes them unwilling and unable to open up new products, channels, or client bases. Industry participants consulted agreed that, on the whole, innovation is limited in the market and that innovative products and channels are only pursued by a limited number of players looking to gain a foothold in the market and with capital sourced from elsewhere in the region to invest in new business development.

Performance indicators suggest limited ability to grow business into lower-income markets. The performance analysis in the 2012 insurance diagnostic study suggested a profitable, solvent industry. The life market was characterised by fluctuating claims ratios (which were attributed to the challenges of adequately pricing and managing a growing portfolio), whereas claims ratios in the general market had been increasing steadily to reach about 48% in 2009. Expense ratios indicated a reasonable level of efficiency in the life, but not non-life, market. Rising expenses in the non-life market were largely driven by sharp increases in acquisition expenses. Increasing acquisition expenses and claims ratios for non-life business suggested that increasing competition was placing risk margins under pressure. Also of concern was that large insurers were heavily invested in illiquid assets such as property, government bonds and other fixed income. This is a mismatch given the fact that the bulk of insurance premiums are for non-life product lines, which require short-term assets. This was ascribed to the lack of tradable instruments in the capital market – a typical situation in least developed countries. All in all, the figures were indicative of a sector experiencing some growth, but with limited appetite or capacity to extend into the mass market outside of organic growth on the back of bancassurance. As no updated data is available, it is not clear which of these industry trends still hold[284].

Broker dominance. The two main distribution channels used are brokers and bancassurance. Agency is growing but still limited. **Table 29** below shows the growth of registered intermediaries with the ISSM between the years 2007 and 2013.

[284] No more recent data could be obtained from ISSM for the purpose of this analysis.

Intermediaries	2007	2008	2009	2010	2011	2013
Brokers	23	25	33	38	42	56
Agents	2	3	8	12	17	25
Promoters	36	84	249	272	294	295

Table 29. Growth of registered intermediaries with the ISSM (2007-2013)

Source: ISSM data (2007-2013), gathered through email consultation. NB: 2012 data is not available.

As of 2013 the ISSM had registered 56 brokers, 25 agents and 295 promoters. An agent is defined as either a natural or corporate person that provides various services, including marketing, on behalf of an insurer. A promoter, in contrast, is a natural person that may only conduct marketing (promote the awarding of contracts) for the insurer. Industry consultations confirmed brokers' dominance and revealed that in excess of 60% of premiums are channelled through brokers, with some players, such as EMOSE, Global Alliance and Real deriving in excess of 75% of premiums from brokers. The notable exception is SIM, which obtains 50% of its premiums from bancassurance[285]. Figures released by ISSM in 2014[286] indicate the following market share across six main players in the broker market:

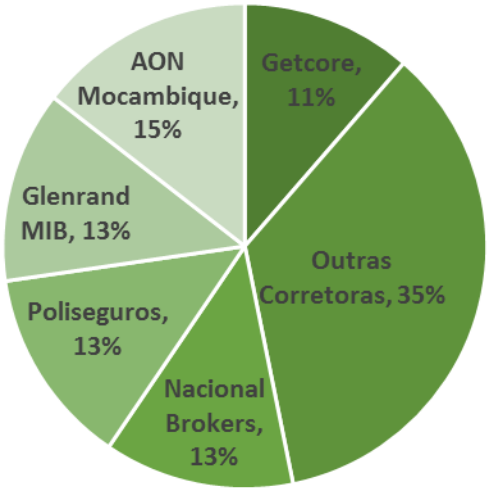


Figure 96: Broker market shares

Source: ISSM 2014

Broker emphasis on corporate business. Consultations with a prominent broker indicated that generally only a limited proportion of brokers' books is retail, with as much as 85% of business being corporate.

Bancassurance growing. Industry consultation reveals that bancassurance models play a significant role in distribution and that insurance growth on the back of banking expansion is

[285] Note: the percentages quoted here draw directly on the Access to Insurance in Mozambique (2012) diagnostic report. Consultations for the current study indicated that trends have remained largely unaltered.
[286] As contained in the PowerPoint presentation titled "Relatorio do Mercado de Seguros de 2013", compiled for Ms Francelina Nhamona, Directora dos Servicos de Estudos e Estatistica, 2 December 2014.

a key growth area. SIM, given its linkage to Millennium BIM, plays the most prominent role in the bancassurance market. Hollard's bancassurance model offers mostly embedded products but also products sold by bank employees on a voluntary basis bundled with other banking products. Global Alliance is also seeking to further leverage its bancassurance potential through Barclays[287].

Limited distribution through agents. According to ISSM data, there is limited use of agents in the market with only 25 registered agencies. The 2012 *Access to Insurance in Mozambique* diagnostic estimated that agent business contributes less than 15% of premiums. One example was found of an insurer deploying agents to distribute a funeral product, as well as attempting to leverage agents to distribute products to schools, churches and women's groups, but it has been largely unsuccessful. Industry interviews indicated limited to no use of agents for traditional worksite marketing, but at least one insurer indicated that it is looking to increase its agent network.

Some use of MFIs, but limited other client aggregators. There are a few examples of credit life insurance provided via MFIs. Furthermore, some niche examples were found of insurers partnering with select MFIs to distribute pilot microinsurance products beyond credit life[288]. At present these partnerships are limited in terms of number of policies sold. There is also some evidence of distribution through other groups. For example, one funeral product that is distributed through churches and family groups. However, these are all still pilot programmes with negligible numbers.

Increasing focus on corporate work forces as aggregated client groups. Consultations show that some products, such as funeral cover, are sold to employer groups. For example, one of the mobile network operators' employees and dependents are provided with funeral cover, with the employer paying premiums as an employment benefit. This sort of demand is seen as a growth channel by insurance companies, because a general skills shortage means that fringe benefits become an important mechanism for companies to lower staff churn.

On the insurer's side, consultations indicated that this sort of aggregation is also attractive because it allows one to overcome the collection of individual premiums as a key distribution challenge, given the challenges with debit order collection in Mozambique. Indications are that there is still significant scope for growth in the corporate and employee group market, with one consultation suggesting that only 40% of the top hundred companies in Mozambique are currently covered.

Early exploration of mobile channel. Industry consultations revealed that some efforts are being made to develop mobile phones as a distribution channel and that ongoing discussions are occurring between insurers and MNOs to develop m-insurance products similar to those launched in other markets in Africa. There are currently no regulatory restrictions to m-insurance, but a number of market barriers remain, including relative inertia on the part of MNOs. Banks are interested in principle, but the allure of a mass market offering is undermined by the fact that there is still much corporate business to be developed.

[287] These findings were established in the Access to Insurance in Mozambique diagnostic (2012) and confirmed in consultations for the current study.
[288] These include Hollard's partnership with Banco Oportunidade, which should be considered as bancassurance, and EMOSE's partnership with Hluvuku

6.4.4. Product landscape

Overall market

Non-life dominance suggests underdeveloped retail life market. 87% of the total portfolio is non-life insurance, with life insurance accounting for only 13% of gross premiums in 2013 (ISSM, 2014). Typically, a non-life dominant industry is reflective of an underdeveloped insurance market, with the retail life insurance industry yet to have developed at scale beyond serving employee groups. The non-life to life ratio places Mozambique in the bottom three least developed insurance markets in SADC along with Angola and Tanzania (Cenfri, 2013)[289] .

Rapid growth in life premiums, off a low base, now slowing vis-à-vis non-life. The 2012 insurance diagnostic study indicated that life business has been a major contributor to the recent rapid growth of the insurance industry with life premiums doubling between 2009 and 2010, when it comprised 19% of total insurance premiums. Since then, however, ISSM data show that the relative proportion has reduced to 14% in 2012 and 13% in 2013[290].

Driven by compulsory lines. The breakdown of total gross premiums in the insurance market is as follows:

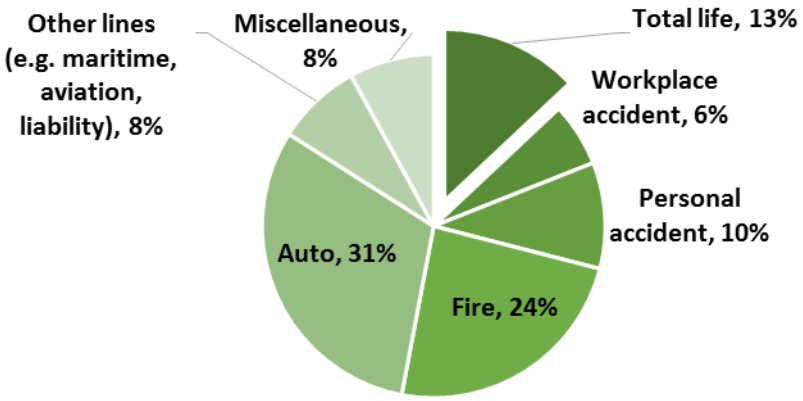


Figure 97: Product class shares in total gross premiums

Source: ISSM, 2014

The figure shows that the insurance market is driven largely by compulsory lines mandated by the government (auto insurance and workmen's compensation insurance) and non-compulsory fire and natural disaster insurance. Within the life market, consultations indicate that compulsory credit life products dominate, followed by funeral products. There are very limited instances of group or individual risk policies that pay out in the case of death, illness or permanent disability. Life products linked to savings do not yet exist as the tax incentives are not yet in place.

Entry-level market

Fairly diverse product range. As there are few dedicated microinsurance products on the

[289] See Regulating for Inclusive Insurance Markets in SADC: A Review of Regulation, Cenfri 2013, p. 24.
[290] Recent industry consultations suggest that official figures may be overstated and that life insurance may make up as little as 5% of total insurance premiums in Mozambique.

market, the analysis takes stock of entry level products or products targeting the mass retail market. A number of such products are detailed in the table below. The table intends to show the range and typical features of products and should therefore be regarded as indicative, rather than as an exhaustive list of all entry-level products.

Product type	Number of providers/products	Benefit and premium ranges/description	Distribution channel
Funeral	At least 10 products across 8 providers	Benefits range widely from as little as MZN 2,000 to MZN 50,000. Premiums differ based on coverage level and number and age of additional lives included. Lowest example found: around MZN 20/month (individual), around MZN 200/month for mid-level family cover of around MZN 36,000.	Mostly brokers, banks, MFIs, some direct distribution and via an *Ophavela* or ASCA.
Credit life	At least 9 products across 5 formal providers and at least 4 MFIs that self-insure	All products compulsory, mostly covering the outstanding loan amount, and often bundled with riders that cover death, disability and retrenchment. Premiums range between 0.35% to 2.5% of outstanding loan, with the majority around 1%. Age and gender also important premium determinants.	Mostly commercial banks and MFIs
Agriculture (credit-linked)	1 pilot (limited current reach)	Premium charged at 4% to 6 % of loan. Policy covers 50% of the loan amount, plus production, commodity stock and goods in transit.	Commercial bank
Weather index	1 pilot: targeting largely cotton smallholder farmers, some maize farmers	A number of defined perils, premium of 15% of sum assured, collected via aggregators that purchase outputs	Agricultural sector aggregators (cotton buying agencies)
SME insurance	1 pilot	Minimum sum assured of USD 50,000. Can cover fire and other perils, burglary, public liability, employer liability and money in transit.	Direct sales/mandate provided to broker
Life & disability: Group life, disability & income replacement; individual life, personal accident (including medical treatment)	3 insurers tracked: 1 offering personal accident coverage linked to credit life; 1 offering death & disability and accidental death & disability; 1 offering life cover to corporates for their employees	- For the bundled product the premium is dependent on the loan outstanding. - For the disability or death policy: capital amount or 5 year annuity ranging between MZN 50,000 and MZN 150,000 in total, plus MZN 2,500 to MZN7,500 for funeral. Lowest premium of MZN1,450/pp/year, going up to MZN 4,216. Lowest monthly equivalent: MZN 121 - For the accidental death or disability policy with same cover, premiums range from MZN 1,092/pp/year to MZN 3,376/pp/year. Lowest monthly equivalent: MZN 91.	Direct sale/ broker and through a commercial bank

Product type	Number of providers/products	Benefit and premium ranges/description	Distribution channel
Health	1 insurer providing a hospital cash plan (limited current reach), with product plans for at least 1 further insurer. At least two insurers providing comprehensive medical insurance (likely limited coverage of lower-income employees)	- Hospital cash provides MT1,500 per day in hospital after 72 hours waiting period to maximum of 30 days. Premium of MZN 180/month for a family of up to 7 people or MZN 75/month for individuals. - Comprehensive medical insurance min. USD1,800/year for family of 5.	Commercial bank for hospital cash plan Via employer (direct) or brokers for medical insurance

Table 30: An indicative summary of entry-level products

Source: Access to Insurance in Mozambique diagnostic (2012), updated through industry consultations and desktop research for MAP Mozambique (2013-14)

Credit life and funeral products predominate. As is apparent from the table above, funeral and compulsory credit life products are the most common entry-level/microinsurance-relevant products:

- *Emerging innovation in credit life market*. Credit life premiums range from 1% of the loan amount per annum to 2.5% and even higher depending on the benefits provided and the age of the borrower. Premiums are typically paid in a single instalment upfront and are capitalised to the loan, implying that interest is charged on the premium, thereby pushing up effective premiums. While the typical credit life product offered by formal insurers only covers the outstanding loan balance on death of the borrower, there are some examples of additions to the standard credit life product. These include a package of funeral cover for the borrower's family, as well as credit life cover being expanded to include disability and retrenchment cover.
- *Funeral the largest focus for voluntary retail insurance*. Funeral products tend to be more standard across insurers than credit life products. Typically, cover is provided to the immediate family (policyholder, spouse and children) and sometimes extended to cover parents and parents-in-law. Benefit levels vary by age of the person insured, from MZN 3 000 (USD 110) for stillborn children to MZN 50 000 (USD 1 800) for adults. The premiums paid depend on age and gender, but can range between approximately MZN 20 (USD 0.60)/month for a young individual and MT 190 (USD 7)/ month for an entry-level family product. Funeral products are generally distributed via bancassurance models, with some instances of insurers making use of brokers and even their own agents.

Limited innovation outside of credit life and funeral. As shown in the table, some insurers do offer life, personal accident, income protection and hospital cash plans aimed at the retail market, but these are limited. Industry interviews revealed some initial attempts at innovative microinsurance products such as an agricultural insurance pilot for borrowing farmers and a general insurance package aimed at the small to medium enterprise market, but the viability or scale of these projects – all of which are relatively new – has not yet been established. This reflects the lack of maturity in the retail insurance market.

Too early to tell success of first weather index insurance pilot. One notable innovation is the 2012 launch of the first weather index agricultural scheme in Mozambique (see the table below for more details). The scheme is a mutli-partner initiative that aims to protect cotton smallholder farmers and maize farmers inside pilot projects. The index product was developed by reputable international parties with a grant from the International Finance Corporation's (IFC) Global Index Insurance Facility (GIIF) and is implemented by Hollard, with co-underwriting from EMOSE and distributed through various agricultural sector aggregators [291]. As seen in the table below, the claims ratio is high for the cotton index due to a claim in 2013, but the maize index has yet to have a claim. The greatest challenge has been the lack of data regarding historical exposure and crop yield. A further challenge has been disseminating pertinent and highly technical information regarding the working of the product down the value chain to individual smallholder farmers.[292]

Crop Index	Cotton	Maize
Insured Perils	Drought (aggregate/periodic precipitation deficiency, consecutive dry days)	Drought (aggregate/periodic precipitation deficiency, consecutive dry days)
	Excess Rain	Excess Rain
	Low temperatures	
Insurers	EMOSE/Hollard Mozambique	Hollard Mozambique
Reinsurer	SwissRe	SwissRe
Aggregators	IAM/SANAM/OLAM	AgDevCo/DFiD
Covered Zones	Nampula Province	Manica Province
Total Portfolio (2012/13)	USD 680,000	
Claims ratio	170%	0%
Insurance Payouts	USD 230,000 (2012 drought)	
Average Cost of Insurance	15% of sum insured	
Current clients	43,000 smallholder cotton farmers in Nampula and a "handful" of clients in Manica for maize	
Target	The Mozambique Institute of Cotton (IAM), a Government agency aims to cover c. 200,000 cotton smallholder farmers as well as extend agricultural insurance to other crop sectors over time. The targets are 2012/13 - 43,000 farmers, 2013/14 – 64,500 farmers, 2014/15 – 129,000 farmers	

Table 31: Key facts on weather index initiative in Mozambique.

Source: Authors' own based on Rising to the Challenge of Global Development Initiatives: Case Study of Weather Index Pilot in Mozambique, Presentation by Israel Muchena (Hollard Mozambique), November 2013. Overview of initiative

[291] IAM is the Instituto de Algodao de Mocambique, the government cotton institute. It was created by statute in 1991 with the mandate to promote, guide, discipline and supervise activities related to the production, marketing, processing and export of cotton. It also cooperates with research institutions in the promotion and organization of research and experimentation regarding cotton and ensures compliance of technical standards for the conservation of soil and correct use of agrochemicals, thus contributing to environmental protection (source: www.iam.gov.mz).
SANAM is a cotton ginnery that is part of the Gein Group. They are one of the biggest cotton concessionaires in Mozambique, producing 50,000 metric tons of cotton per season (source: http://geingroup.com/sanam.html)
OLAM is a global food processing group. It supports 40,000 smallholder farmers in Mozambique with inputs and financing, as well as a market for their produce. They began in cashew processing in Nampula province in 1999, where they now employ 4,000 people in cashew processing. They now have a rice distribution network spanning most towns and a well-known rice brand, plus operate three cotton concessions in Northern and Central Mozambique (source: http://olamgroup.com/locations/east-africa/mozambique/)
[292]See http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/retail+finance/insurance/guy+carpenter.

(http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/retail+finance/insurance/guy+carpenter)

6.4.5. Barriers to access

This section considers the various usage and access barriers that can help explain the very low uptake of insurance in Mozambique. **Figure 98** below shows the reasons for not having insurance as reported by FinScope (2014). It shows that the most prominent reasons for not having an insurance product are related to usage and not to access.

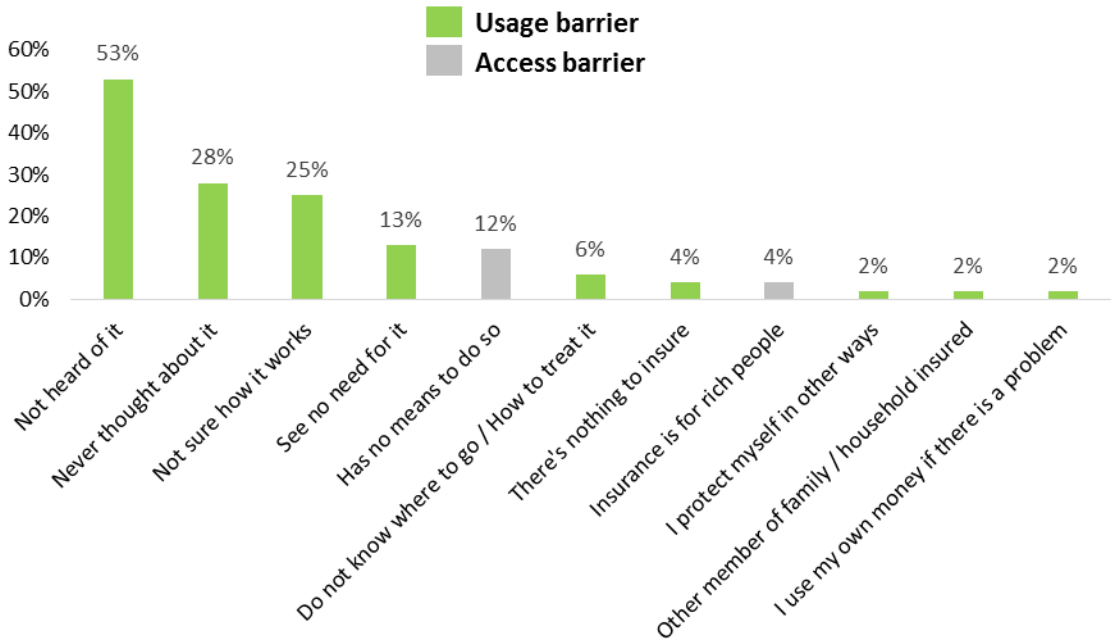


Figure 98: Reasons for not having an insurance product (Of those that are not insured)

Source: FinScope 2014

Below, the most prominent access and usage barriers are discussed in turn.

Access barriers

Affordability reported as a key issue for respondents but may be driven by perception. Of the access barriers tested for in FinScope, affordability seemed to be the largest concern for respondents with 12% of adults (1.7 million) indicating that they do not have the means to get insurance. The majority of qualitative respondents also indicated it as a key factor when deciding whether or not to utilise insurance. It is important to note that neither the FinScope 2014 survey nor the qualitative research explicitly tested people's knowledge about the cost of insurance. Further, discussions about informal risk sharing mechanisms showed that contributions to these often exceed the cost of formal insurance policies offering the same or better cover. Moreover, when focus group respondents were asked what they would be willing to pay for insurance, their responses averaged MZN 100; several of the formal products have premiums less than this. It is, therefore, possible that the responses on affordability were

based on perceived rather than actual cost.

> *"It is difficult for me to tell you how much I would be willing to pay for insurance. I should be concerned about it and pay for it to avoid losing. The farmer does not like to lose because he gets things with much sacrifice and does not like to owe someone money and be indebted because he knows the sacrifices that are made in order to get money. I would pay MZN 100 (USD 3.65) on a monthly basis for insurance."*
>
> Informal Trader, Vale Infulene (Maputo)

Nevertheless, the very low income profile of the majority of Mozambicans suggests that affordability remains an absolute barrier to access for many. Eighty-one percent of the uninsured earn less than MZN 5 000 per month (which equates to approximately USD 5 per day) and a further 17% earn between MZN 5 000 and MZN 25 000. For them, even a very low insurance premium is likely to comprise a significant proportion of disposable income. In contrast, only 33% of the insured earn less than MZN 5 000 per month, 55% earn between MZN 5 000 and MZN 25 000 and 12% earn more than MZN 25 000. Those that take up insurance therefore tend to be more wealthy than those who do not.

Proximity a major barrier. Most insurance companies have only a limited geographical presence. The exceptions are SIM and EMOSE, who have a national footprint, but even they do not reach deep rural communities. Most other companies are limited to major urban centres[293]. As discussed in **Section 5**, the majority of the rural population lives relatively far from formal financial sector touch points. Thus proximity is a real challenge for most of the uninsured. This is confirmed by the fact that 82% of the formally insured are urban.

Industry consultations confirmed that distribution and premium collection are the single biggest supply-side challenges in the market. Thus the ability to reach customers is an important access barrier. There is limited innovation in premium collection at present. In addition, the industry has limited incentive to invest in developing distribution channels that will extend the reach of the insurance sector as there is still sufficient growth potential for business among brokers and bancassurance[294] channels focusing on corporate and high-net worth employees.

Eligibility. The consultations and analysis of regulatory requirements did not reveal any significant eligibility barriers, such as the submission of a payslip, in the insurance market.

Appropriateness of product features. The regularity of premium payments does not coincide with the income profile of those with irregular income flows. The target market features suggest that insurance premiums designed to coincide with irregular income flows, such as seasonal agricultural income or a savings society's pay-out cycle, may be desirable. However, the severity of the other access and usage barriers may override any incremental accessibility gains.

[293] Mill Seguros 4/12/2013

[294] Bancassurance is relevant for SIM (through BIM) and Global Alliance (through Barclays), two of the leading companies in the market.

Usage barriers

Low awareness and understanding undermine take-up. The largest barriers to insurance reported by FinScope (2014) are usage related, specifically around awareness and understanding of insurance. Fifty-three percent of adults who do not have an insurance product have not heard of insurance, while 28% of uninsured adults have never thought about insurance and 25% do not know how it works. While most qualitative respondents[295] demonstrated some form of understanding of insurance, most had a limited understanding of the detailed workings of products and how insurance companies operate. Levels of understanding of insurance varied according to the profile of the respondents. MFI clients and schoolteachers demonstrated a greater understanding of insurance. Some MFI clients indicated that they had credit life insurance with their loans, while some teachers had formal insurance products including credit life with commercial banks and health insurance. Qualitative respondents also requested additional information concerning insurance and indicated they would be more likely to purchase insurance products if they had additional information. While awareness and understanding will not necessarily translate to take-up of insurance, it is certainly viewed as an important precursor to take-up.

Quotes from the qualitative research include:

> *"We have already heard about insurance, but we do not understand what it is."*
>
> Farmer, Mafambisse, Sofala Province
>
> *"No one comes to talk to us about insurance."*
>
> Farmer, Vale Infulene, Maputo Province

Awareness particularly limited for products beyond funeral or credit life. Apart from funeral insurance, respondents in the qualitative research simply did not consider the concept of insurance. It has never occurred to them to be a product class that would be within their reach or that is applicable to them[296]. One male respondent in Niassa indicated that he did not know what insurance was and that "the only way to deal with risk is through the force of work".

Negative perceptions pose significant barrier. Qualitative feedback also suggests that negative perceptions of insurance abound. A male respondent in Inhambane suggested that insurance is only for people living in towns, while a female respondent in Matola regarded insurance as something that only companies have, not "people like me".

6.4.6. Regulatory issues to consider

No absolute regulatory barriers. In general, the consultations did not suggest any burning regulatory issues. This confirms the finding in the 2012 *Access to Insurance in Mozambique* diagnostic, which found that the Insurance Act demonstrates a flexible approach to regulating microinsurance[297] and that, where there are instances of regulation that could constrain

[295] Qualitative fieldwork for Access to Insurance in Mozambique diagnostic, September 2013.
[296] Qualitative fieldwork for Access to Insurance in Mozambique diagnostic, September 2013.
[297] Including the creation of a dedicated category of microinsurance providers with lower capital requirements, provision for microinsurance intermediaries, relaxation of actuarial requirements and the delegation of registration and training requirements of intermediaries, promoters and agents delegated to the insurer. The authorised mainstream insurers and intermediaries can underwrite and distribute microinsurance without getting a separate license and simply need permission. Further, mainstream insurers with either a life or general insurance licence may underwrite composite microinsurance products. The microinsurance regime, nevertheless, still requires further amplification in regulations, including benefit levels that still need to be calibrated and

microinsurance development (see the discussion below), they are mostly in the regulations and can be updated without amending legislation. The ISSM has indicated that it wishes to maintain a "test-and-learn" approach to microinsurance in the country. They have therefore carved out a position from which revisions can be made in line with market developments.

Yet it is also not clear how useful the microinsurance provisions are in practice, given the substantial structural challenges in the market and the fact, as will be discussed in the next sub-section, that there is a very limited microinsurance market to create in the short to medium term. More pertinent is a sound regulatory framework for the long-term development of the life and retail insurance markets.

Nevertheless, the analysis of the regulatory framework in the 2012 *Access to Insurance in Mozambique* diagnostic concluded on the following potential regulatory issues with regard to microinsurance which, according to the MAP consultations, still hold:

Differing intermediation requirements may lead to arbitrage. There are apparent contradictions between the treatment of different intermediary categories in regulation. Some examples include:

- The rules of conduct within the general intermediation regime exempt bancassurance and microinsurance intermediaries. For example, whilst bancassurance and microinsurance intermediaries are free to negotiate their remuneration with the insurer, the other intermediaries must follow a certain commission regime. This opens up opportunities for arbitrage.

- Promoters are introduced as a category of intermediary for mainstream insurance but the Act does not clarify their scope of activities. Given the reduced compliance burden on promoters, it could result in regulatory arbitrage if their activities are not clearly defined. It also seems counterintuitive that promoters, as an enabling element in the regulation of mainstream insurance, have not been included in the list of microinsurance intermediaries.

As a result of the above arbitrage opportunities, agents will be less likely to be used.

Some product definitions may limit market development. There are certain definitional limitations at the product level. For example, life insurance within the microinsurance regime is limited to credit life. Further, the funeral insurance definition in the same regime is limited to expenses incurred for the funeral of the insured person, a formulation that can be confusing as it implies the exclusion of a choice between cash or in kind benefits, which is the current market practice for funeral products. Furthermore, for both funeral and credit life to offer enhanced value, it may be appropriate to allow these products to extend beyond the coverage of debt or funeral costs. Lastly, the health insurance definition for microinsurance restricts cover to hospitalisation. This may preclude large portions of the population, as it does not encompass access to outpatient health services, either public or private. Neither does it explicitly cover collateral expenses as a result of hospitalisation, including transport costs for the family to visit or loss of income due to hospitalisation.

No provision for simplified policy content and contracting. Where specific exemptions are not

which is under consideration within the ISSM (Cenfri, 2012).

provided for microinsurance, the provisions applicable to mainstream insurance apply with equal force to microinsurance. For example, no concessionary regime is created for insurance policy contracts (including the requirement to deliver physical copies to policyholders) making these potentially onerous and costly for microinsurance purposes. Approaches to simplified contracting and content of policies to support microinsurance development have been explored in other countries, most notably in Brazil with the enabling of so-called policy tickets (or *bilhetes*)[298]. The ISSM is aware of this problem and is considering how to tailor microinsurance policies appropriately.

Microinsurance intermediaries restricted by single insurer partnerships. The regulatory restriction of certain microinsurance intermediaries to a single life and non-life operator may be problematic. It would require a regulatory amendment to enable microinsurance intermediaries to have partnerships (multi-tied) with different insurance companies for respective products to enable healthier competition in the market.

Lack of comprehensive, updated published data. Industry consultations indicate that the lack of reliable, recent industry data is a challenge. The latest official ISSM annual report dates back to 2010 and the fact that only one player publishes annual financial statements makes it difficult to adequately gauge industry trends and market shares.

6.4.7. Gaps & opportunities

The discussion above showed that the Mozambican population has a number of insurable risk needs that go unserved, most notably medical and agricultural risks. However, the supply-side landscape, the geographic and income profile of the population and the various access and usage barriers discussed suggest that there is limited opportunity for insurance to reach the majority of Mozambicans and that insurance may not be a first order priority in the financial inclusion roadmap.

This does not negate the value of insurance or the need for the general development of the insurance sector. However, in reality the most viable roadmap priority, for the short to medium term, may be to focus on extending the reach of the retail insurance market among the formally employed target markets, where there is still substantial scope for growth and where the distribution and premium collection challenges are less severe. Together, these two groups represent 9% of adults (1.32 million adults). Only 17% of salaried workers and 42% of government employees already have formal insurance. Where feasible, specific opportunities can be explored via existing client touch points (for example viable aggregators in the agricultural sector, as the current weather index pilot shows) to reach into a few targeted sub-groups of the other target markets.

The discussion below elaborates on the main gaps and opportunities.

Structural challenges to market expansion at scale. It is clear from the analysis that development of the market at scale is unlikely, both from a demand-side ("bottom up") and a

[298] A *bilhete* (or ticket) is a simple policy with no underwriting performed. It can be purchased like a "travel ticket". A ticket automatically creates a standardised insurance product where the insurer has no option to analyse the individual risk characteristics of each client, but can only do so for the "ticket" group as a whole. Tickets therefore by implication relate to group and open group policies. The client, likewise, cannot choose the particular risks covered or level of cover, but must adhere to the standard terms of the ticket.

supply-side ("top-down") perspective:

- *Severe profile challenges to "bottom-up" development.* Barring the government and other salaried employees, all the target market segments, a total of 91% of adults, have very low and irregular income profiles. Furthermore, 67% of the population live outside of the main urban centres, where insurance activity is concentrated. This means that it will be difficult to reach most segments from both an affordability and a proximity point of view. The qualitative demand-side research confirmed that insurance is not a flexible instrument to manage the multiple risks faced by households, particularly given the irregularity and unpredictability of incomes. Even if it were, most people are not even aware of insurance as a formal instrument and have no way of accessing it in the communities where they live.

  This assessment confirms the earlier conclusion in the *Access to Insurance in Mozambique* diagnostic (Cenfri, 2012), which classified the vast majority of adults in Mozambique (87.5% of adults) as "hard to reach". Those who fall within the hard to reach category do not have regular and predictable income flows or are difficult to access (with bank account and mobile phone ownership taken as proxy).

  Thus government or donor-provided safety nets, along with household income diversification strategies and infrastructural improvements (such as better sanitation and town planning preventing frequent flooding), may be more appropriate strategies than insurance to meet the most immediate risk management needs of most target markets.

- *Large-scale top-down push unlikely*. The supply-side analysis suggests that new entrants have largely grown their market by procuring new business, rather than by taking over the business of incumbents. The consultations suggest that these growth opportunities have mostly come from the corporate and high-end retail sector, or from employee groups, and that there is still sufficient scope for growth in these sectors. This limits the incentive for most players to strategically prioritise lower-income, more challenging target markets, which require substantial patience and deep investor pockets.

  Future plans mentioned in consultations include exploring the potential for mobile insurance, more bancassurance, and cutting out brokers to go direct in signing up groups such as MFIs and employers. The main product emphasised as a growth area is credit life, though funeral and life were also frequently mentioned. There are a handful of interesting pilots on the market or in the pipeline, but the success of such products has not yet been proven and the number of new policyholders reached are still minimal.

  Insurers furthermore face severe skills and capacity constraints, with consultations indicating that some are struggling to even just handle "organic" growth with their current systems and capacity. Lastly and importantly, distribution and premium collection/claims pay-out challenges mean that expansion scope beyond main urban centres and the formally employed target markets is severely constrained.

Thus it is likely that retail growth, for the foreseeable future, will largely remain aligned with growth in the banking sector, which leads bancassurance growth, particularly compulsory credit life insurance. On the general insurance side, compulsory vehicle and workmen's compensation insurance are likely to remain the main retail drivers. In addition, there can still be significant expansion of voluntary products among employee groups. Outside of the formally employed, it is possible to find pockets of "servable" markets through aggregators,

but this will not lead to substantial growth in the number of people reached, in total. Rather, what is required are small steps of progress towards the long-term development of the market, structurally.

In summary, the most immediate opportunities across products and target market segments are as follows:

Target market & size	Insurance penetration[299]	Main product needs	Reach prospects
Government employees [635,000 or 4% of adults]	42%	• Credit life • Life • Health • Auto and other asset risks	*Most immediate target market*: highest income profile, most educated, second most urban, regular income existing touch point for distribution and premium collection via government as employer, highest banked and highest mobile penetration.
Salaried individuals [687,000d or 5% of adults]	17%	• Credit life • Life • Health • Auto and other asset risks	*Second most immediate target market*: Relatively high, regular income, relatively well educated, highest urban, existing touch point for distribution and premium collection via employers. High proportion banked and high mobile penetration.
Micro enterprises [2.2 million or 15% of adults]	2% have insurance	• Health • Asset cover/working capital protection • Credit life	*Reach in targeted, innovative way*: This group's average income is only marginally lower than salaried workers, and mobile penetration is 64%. They are also the third most banked group (but at 26%, the banked lag significantly behind salaried workers and government employees). While this means that they have some scope as a target market for insurance, the biggest challenge is that they are not part of a network (such as an employer) that can be used for distribution purposes. Furthermore, they are largely rural and have relatively low education. The most viable sub-group is likely to be the "driven achievers" identified in **Section 4: Target market analysis**, but even for them insurance reach is unlikely as an isolated strategy. They are best pursued as part of a comprehensive strategy to identify and reach them on various fronts.
Biscato [1.5 million or 10% of	1% have insurance	• Health	*Hard to reach*: Their very low and irregular income profile, plus largely rural nature, makes them an unlikely target market

[299] As a percentage of the target market.

Target market & size	Insurance penetration[299]	Main product needs	Reach prospects
adults]			
Dependents [4.2 million or 29% of adults]	1% have insurance	• Health • Some life, funeral	*Hard to reach*: They are the group with the lowest average income. Very few are banked and just more than half have access to a mobile phone. The fact that they rely on others for their primary source of income means that they are probably best reached as dependents/lives covered on a more affluent segment member's policy.
Farmers and fishers [4.6 million or 32% of adults]	Virtually no one has insurance	• Agricultural risks • Health • Some life	*Hard to reach unless linked to value chain:* This group faces significant insurable risks, but also substantial uptake challenges. They are, by definition, rural. While their average income is significantly above that of *biscato* and dependents, they remain largely poor in monetary terms and, importantly, have irregular incomes. Less than one in every 10 have a bank account and they are also the segment with the least access to mobile phones (only 34%). Apart from targeted initiatives linked to specific value chain entities that reach a defined group of farmers, they are therefore unlikely to be a viable target market for insurance.

Table 32: Synopsis of insurance reach prospects by target market segment

Source: Authors' own

7. Financial inclusion drivers and opportunities

This section synthesises the findings across the context, regulatory, target market and supply-side analyses in order to identify the product, provider, channel and regulatory imperatives for financial inclusion that will achieve the biggest ultimate impact on consumer welfare and the real economy in Mozambique:

- It starts off by summarizing the key findings regarding the underlying drivers of and constraints to financial inclusion in Mozambique.
- It then concludes on the key target market needs, mapped against the current playing field of various types of financial institutions.
- On this basis, it determines the priority imperatives for a advancing inclusive market development in Mozambique – from a market as well as enabling environment perspective.

From an access frontier[300] perspective, it is strategically important to recognize that the market develops incrementally and requires certain preconditions in the enabling environment and market infrastructure in order to advance financial inclusion, and therefore welfare improvement, at scale. Some of the strategic opportunities and actions outlined below in the sub-sections to follow are geared towards a core set of feasible actions, as well as leveraging the necessary building blocks, which are either already in place or within reach, for shaping more inclusive economic growth. This includes addressing some systemic issues, while simultaneously improving access for thinly served markets. Together, these actions will enable existing markets to move forward while shaping an enabling environment that can lead to greater financial inclusion and welfare improvement at the bottom part of the market.

7.1. Cross-cutting drivers of financial inclusion

The analysis highlights a number of cross-cutting factors that shape the development path for financial inclusion, as well as its role in achieving broader policy objectives, in Mozambique. These factors relate to the distinct target market socio-economic conditions, regulatory environment and economic realities that shape the interplay between individuals and entities existing in the formal and informal worlds:

11. *A pervasive infrastructure deficit.* Mozambique's colonial legacy, coupled with the prolonged civil war, continues to shape the economy. One of the areas where this is most strongly felt is the infrastructure constraints facing Mozambique. Paved road systems, water and sanitation, and electricity coverage are all limited outside of urban centres and the main development corridors. The country's topography, with the large divide between the North and South, reinforce the infrastructure challenges, as do the fact that the economic development corridors, and the corresponding infrastructure developments, largely run from West to East or are concentrated around megaproject hubs. This infrastructure deficit pervades many of the other drivers discussed below. The infrastructure deficit also extends to human, not just physical capital. Health systems are limited and the country faces a severe constraints in the education system that reinforces a structural skills mismatch in the economy.

    Political economy shapes market dynamics. The historical legacy is also felt in the regulatory environment, where laws and regulations tend to be drafted without substantive industry consultation and where details of draft laws and regulations are often not revealed until after they are essentially finalised. In some instances, even legislation that has been enacted is not available either publicly or to providers. For financial service providers, whether large or small, this creates an air of uncertainty which deters innovation, particularly where innovation requires large infrastructure investments of their own. This also results in some regulations, despite the best of intentions, having unintended consequences for financial inclusion[301].

[300] The access frontier is a concept developed by Porteous (2004). It recognises that markets develop gradually over time to serve the next most profitable segment, and that some part of the population will always be too poor to be reached through the market mechanism. This means that only focusing on the poorest of the poor is not appropriate in a developing market and that attention should be paid to market infrastructure and regulatory determinants or drivers of access. The access frontier concept also recognises that consumer behaviour and choice play a role in who is (and can ultimately be) served or not, alongside supply-side and regulatory considerations.

[301] For example, although Mozambique has created many tiers of credit providers in order to better facilitate access to formal services, in practice there is no proportionality and microfinance focussed providers face the same costs as large banks. Smaller providers, then, must seek ways to cover costs. This is one of the driving forces that has lead microfinance focussed providers to move upstream, away from their traditional low-income client base.

12. *Pluralist legal systems mean those in the formal and informal sectors follow different rules and norms.* Another colonial legacy in Mozambique is the pluralist legal system. Most Mozambicans live according to community norms and rules, which are enforced through a variety of social conventions and are upheld through community courts. These courts, though not formalised, have been granted formal authority by the government.[302] In contrast, the rules that govern financial institutions, formal businesses, and the economy at large all stem from the formal Civil Code. These formal systems rely on different information gathering, identification, contracting, dispute resolution, and enforcement mechanisms that are foreign to most Mozambicans. While the pluralist system is important for providing access to a justice system, creating formal space for pluralist systems to continue signals that there is no intention to incorporate community rules into the formal legal system and will instead remain localised[303].

13. *Economic growth is not reaching most Mozambicans.* While Mozambique has been experiencing high economic growth in recent years, this growth is not reaching the population at large. Foreign direct investment entering Mozambique to support the megaprojects, and the momentum that the megaprojects themselves are generating through spurring ancillary projects, has helped propel Mozambique's GDP in recent years. However, poverty levels have not changed substantially. Further, once all of the megaprojects are operational, they will be more dependent on higher skills, whereas most Mozambicans have extremely low levels of education and skills which prevents them from participating in the advancing economy. Most Mozambicans, then, will struggle to move beyond earning income as small-scale farmers, piece workers or survivalist microentrepreneurs. Only a limited number of Mozambicans can therefore benefit from employment opportunities created directly by the megaprojects. In addition, the megaprojects are owned and operated by foreign entities and tend to expatriate proceeds. It is likely, then, that Mozambique's economic boom will benefit only a few, while most people will not feel the positive impacts[304].

14. *A largely survivalist economy with some reliance on in-kind transactions*. The largely survivalist existence of most Mozambicans, especially those in rural areas, stands out as a stark socio-economic reality. It is clear from the quantitative and qualitative demand-side research that people are used to hardship, that many continue to live in poverty and are faced with the realities of living without the stability of a regular income source. There is also a degree of reliance on an in-kind economy. Many examples of in-kind lending were found, and for some target markets, particularly dependants, at least some income is received in-kind. Further, about half of all informal savings are in-kind.

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[302] While these rules remain informally derived, the courts have been granted formal authority by the Mozambican government. This distinction is critical. The rules by which people live have in no way been formalised. The legitimacy of these rules have been recognised, and only decisions made through community courts are formal. This is tremendously important in providing the majority of Mozambicans with access to a judicial system. But this should not be mistaken as incorporating community rules and norms into the integrated formal legal system of Mozambique.

[303] Rather than adapting the rules in the formal system to reflect the rules by which most people live, formal recognition of the community courts relieves the burden on the formal system to adapt to meet the realities of those outside the citadel. It is essentially a declaration that the formal system will not attempt to integrate the community based rules. As Hernando de Soto explained in the context of property rights, "[i]f extralegal property rights are not accommodated, these societies may muddle along with their dual economies – with the so called law-abiding sector on the one side, and the impoverished extralegal sector on the other". When legal systems fail to incorporate the rules of their citizens, those citizens will remain excluded.

[304] It still remains to be seen the extent to which the development corridors can be leveraged to benefit larger segments of the population. There are some indications that smallholder farmers along these corridors are better able to plug into value chains, as well as that large, foreign agricultural companies are looking to develop large-scale commercial farming along some of these corridors.

15. *Significant informal intermediation.* The income profile outlined above plays a major role in financial sector development, as many Mozambicans face severe affordability, eligibility and other barriers to accessing formal financial services. Most people, therefore, do not regard themselves as viable contenders for formal financial services. Formal financial institutions tend to reinforce this view, as by and large they do not regard the mass or low-income market as part of their primary target market. However, even target markets that are formally employed and have higher incomes are often not adequately served by the formal sector. As a result, informal intermediation serves people from all target markets.

    In order to cope and lead their financial lives, social mechanisms of trust, reciprocity and accountability are leveraged as a safety-net during hard times.[305] Breadwinners pool their resources together within a household, and neighbours within communities help each other to "make do" when resources are limited, or risk events such as emergencies or natural disasters strike (as is often the case in a country such as Mozambique which is prone to both flood and drought). It is in this context that *xitiques* have emerged as the primary mechanism for building social capital and intermediating resources. While primarily a savings mechanism, x*itiques* play a broader role by allocating resources either to meet emergencies, smooth consumption, or to make otherwise unaffordable investments. Social dynamics are also often at the core of informal lending relationships. Many *agiotas* have reported that they do not lend to people they do not trust, or do not know. Borrowers have also reported that *agiotas* are preferred over banks because they know the *agiotas* personally, which means he or she can be trusted. Family and friends also frequently lend to each other, though this is not necessarily intended to be repaid, but rather reciprocated. This type of lending, then, illustrates the role of social ties as a safety-net[306].

16. *Formal financial services not attuned to target market realities.* Formal financial institutions largely conduct business in a manner that does not reflect the world in which most Mozambicans live. Accessing a product from a formal financial institution usually requires navigating complex documentation, unfamiliar terms and conditions, providing formal identification, or providing proof of income or address. Even microbanks and microfinance focussed banks require impose many of these same hurdles. The qualitative research provides interesting insights into respondents' perceptions of and engagement with formal and informal financial services. There is a distinct sense that formal institutions are not relevant to the needs of most people. It is also widely felt that formal institutions are not affordable, and their processes are simply not understood. This partly results in a lack of trust of formal institutions.

17. *Poor payments infrastructure constrains liquidity and economic activity, prevents financial sector from moving down-market at scale.* Large banks settle accounts among themselves using cheques which are cleared manually. Settlements can therefore take days, which puts pressure on overall liquidity. In addition, an insufficient payments footprint and

[305] As discussed by De Soto, people outside of what he calls the "bell jar" must use "their own informally binding arrangements to protect and mobilize their assets." De Soto, 21.

[306] In some instances, *xitiques* furthermore accommodate in-kind contributions. There is also noticeable in-kind lending. The qualitative demand-side research identified instances where one neighbour lends food to another, and market traders lend food to customers. Such resource intermediation functions, based on social structures and accommodating both in-kind and monetary resources, have evolved to meet the needs and realities of Mozambicans.

supporting infrastructure (e.g. electrical infrastructure to keep systems online), result in the need to physically move large volumes of cash around the country. This comes at great cost, while also physically tying up cash while it is transported back and forth between rural and urban areas. The lack of interoperability makes use of even existing payments infrastructure a greater challenge. In addition, poor physical infrastructure, which is endemic throughout Mozambique, also drives inefficiencies and costs.

In addition to the payments system issues raised above, capital scarcity is also driven by other factors[307]. Combined with the high cost-to-income ratios of banks, the liquidity constraints explain why large banks are by necessity focussed on high-value corporate and retail clients, and have little capacity or incentive to serve middle- or lower-income clients. Indeed, the capital constraints mean that even financially "included" people find it difficult to meet all their financial needs, notably for credit, through the banking sector.

18. *Microfinance focussed providers moving upstream.* The challenges noted above also prevent microbanks and microfinance focussed providers from reaching excluded populations, particularly in rural areas. Combined with other forces driving these providers upstream is a lack of regulatory proportionality, which increases costs and requires eligibility criteria that lock out the majority of Mozambicans. Unable to serve their traditional low-income client base, these providers find their target market shifting away from lower-income or excluded groups and instead towards higher-income earning, thinly served salaried private sector and government workers.

The result: a citadel economy. All of the above forces shape what we refer to as a 'citadel economy' whereby those inside and outside the citadel are separated by high walls. The citadel economy is used as a metaphor for a dual economy where those target market segments that are able to access formal financial services and benefit from the infrastructure, primarily in urban areas, are considered as the insiders, whereas those that largely operate in the informal economy, facing infrastructure constraints and structural barriers to access are considered as the outsiders. On each side of the walls are distinctly separate legal, financial, and economic worlds in which the insiders and outsiders live. The citadel is not the result of specific government policies or business decisions by individual firms, but rather the aggregate result of incentives and barriers that drive in providers in the citadel essentially being locked in and unable to extend services outside the walls of the citadel. This keeps providers from reaching excluded target markets, and keep those markets from reaching formal services.

Target market segments correlate with the citadel divide. **Figure 95** below, which plots the target market segments according to a measure of income (horizontal axis) compared to the proportion that are urban (y-axis). It is clear that all of the segments outside of the formally employed sector are more rural and lower-income compared to those who are formally employed. While many people in urban areas are also excluded or thinly served, broadly there is a strong correlation between urban and rural. A clear "bottom versus top" divide is

[307] As discussed, the capital constraint stems from two main sources. First, the megaprojects require significant petroleum inputs, which causes the largest banks to tie up a significant proportion of their funds in syndicate financing for petrol imports. This also requires keeping funds offshore in foreign currency implying that funds are not available for domestic use. Secondly, banks are providing significant financing for projects ancillary to the mega-projects (construction, road works, etc.), which further commits limited capital. Smaller factors, with noticeable aggregate impact, also contribute to the liquidity constrained environment. This includes the requirement that all credit institutions provide the Government with an interest free loan totalling 10% of the Government's preceding year's budget automatically takes a lot of liquidity out of the market. And finally, many Mozambicans simply do not save in banks. Those that receive their salary in a bank often immediately withdraw all of their cash. All of these factors put further strain on available capital in the banking system.

therefore apparent:

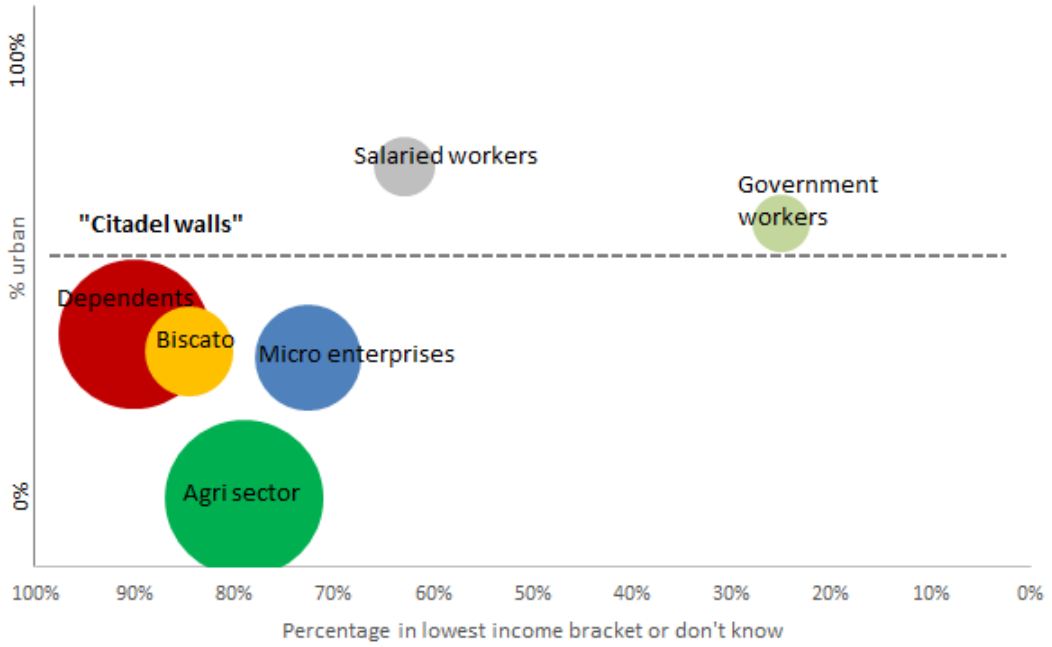

Figure 99: Illustrating the citadel divide across the target markets

Source: authors' own

The top of the diagram is the primary playing field for most formal financial institutions, namely credit institutions, which includes commercial banks, microfinance focused banks, microbanks and most other types of credit providers, as well as insurers. As discussed, microfinance providers are also shifting their emphasis to the top of the diagram. However, the vast majority of Mozambicans live in the bottom half of the diagram.

The divide between insiders and outsiders is clear in the usage profiles highlighted by FinScope (2014):

- *"Insiders".* Generally, the insiders are the two formally employed segments. Though salaried workers lag greatly behind government workers in terms of average income, both markets are more affluent, and have more stable, regular incomes than the rest of the target markets. Many, particularly government workers, are already connected to formal providers through their employers (for example, through direct deposit accounts), and are more able to overcome eligibility, affordability, proximity and other access barriers. These target markets are also more educated, and can more easily overcome doorstep (usage) barriers, such as navigating complex contracts and other requirements. These target markets are in the top part of the diagram in **Figure 99**.

  Even inside the citadel, access to all formal financial products is not complete. Many banked customers have successfully entered the economic world inside the citadel. However, rather than banks they must seek payroll lenders, microfinance focussed banks, microbanks, or *agiotas* to meet their credit needs. In addition, many formal sector workers meet their savings needs through participation in *xitiques*. Formal sector workers are also the main senders of remittances, often using informal channels. The walls of the

citadel are most readily breached, then, not by those outside but by those inside with the ability – or necessity – to reach outside.

- *"Outsiders".* The rest of the segments are more rural, and more than 70% of individuals in all of these target markets fall in the lowest income bracket indicated in FinScope (MZN 5 000 per month or below). They face significant access and usage barriers in "breaking through" the citadel walls. Thus they have limited engagement with formal financial services compared to informal mechanisms such as *xitiques*, *agiotas*, in-kind and home-based savings, loans from family and friends and cash-based sending and receiving of money. Not surprisingly, they function almost entirely in a cash economy, as well as a significant in-kind economy.

The diagram below illustrates the various barriers to breaching the citadel walls from the top down as well as from the bottom up as described above:

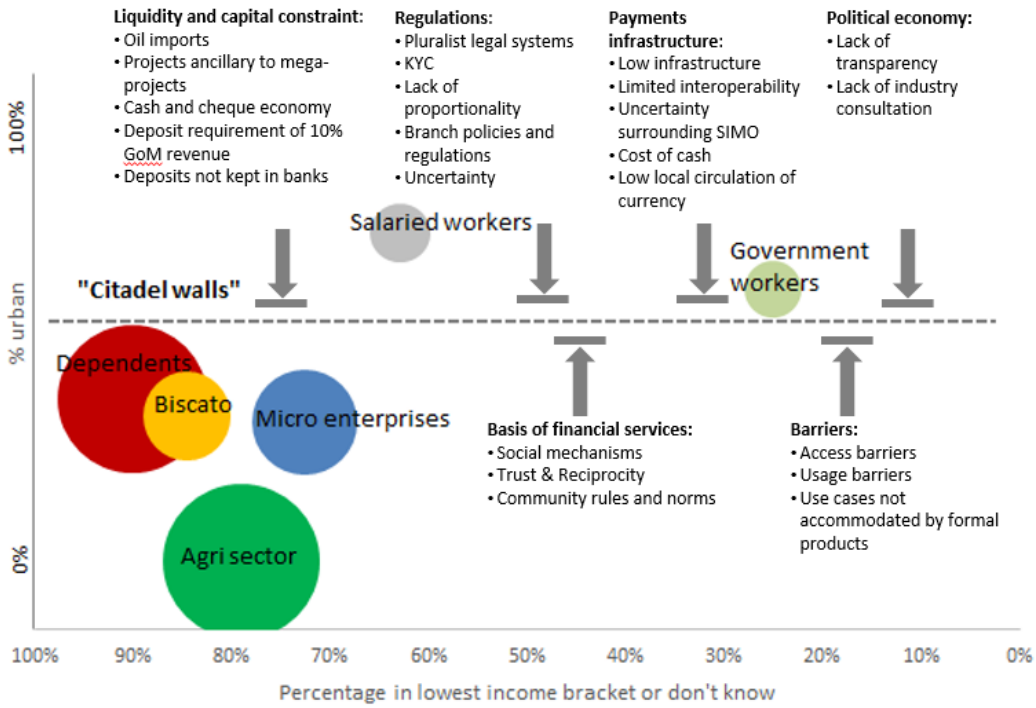

Figure 100: The various barriers forming the citadel walls

Source: authors' own

7.2. Target market needs

Before discussing priority actions to start addressing the issues raised above, it is necessary to first understand the different profiles and needs of the target markets.

Many unserved needs. At an aggregate level, almost two thirds of Mozambican adults do not use any type of financial service, whether formal or informal. Only about 25% use any type of formal financial services. In addition, many of those who have access to formal providers are only thinly served, which means most only have one type of formal financial service. This suggests a clear imperative for enhanced financial inclusion to reach both thinly served and excluded populations.

Needs differ by target market. The table below summarises the key financial service needs for the various target markets arising from the demand-side analysis. The following sub-section then considers opportunities to address these needs.

Target Market	Current usage profile	Main realities and financial service needs
Farmers 4.6m (32% of adults)	Low formal usage across the board; informal savings about 9%, and savings in-kind about 7%; 92% totally excluded from credit; 96% excluded from insurance.	Main financial service needs: • Credit targeted to specific subsets of farmers that can be reached via existing aggregators for lower-value inputs (seed, fertilizer, etc.) • Safe store of value Farmers are the most removed from formal financial services, both in physical and technological terms (with only one in three having cell phone access). They are also generally low income and not well educated. This presents clear barriers for access, as ATMs, formal credit application processes, and mobile money could be difficult to use. Their profile implies that they have a strong need to smooth income, enhance productivity (e.g. through better use of agricultural inputs) and deal with weather-related risks. The weather-related risks also deter credit providers from accepting crops as collateral. Further, credit providers generally see farmers as high risk because they do not own their land and therefore cannot use it as collateral. Individually, farmers have not demonstrated sufficient surplus income to be able to sustain agricultural insurance programs. However, farmers have proven to be relatively effective in forming associations and accessing services as groups, or through outgrower schemes.
Dependents 4.2m (29% of adults)	1 in 3 included, but only 15% formally included. Extremely low (<5%) credit & insurance usage. Usage is skewed towards informal and family & friends savings and remittances. 7% save in cattle, which indicates linkages with agricultural sector (which could include farmers as well as other target markets showing significant savings in cattle, such as Government Workers).	Main financial service needs: • Remittances • Safe store of value The needs of these individuals vary depending on the status of the individual in the household. For those that are younger and uninvolved in decision making, the benefit of financial inclusion may be limited, particularly since many dependents receive no kind of income at all, but instead have expenses covered by the household. For those that do receive an income from outside their immediate household, secure and affordable ways to remit would be a priority. The most feasible way of reaching dependants may be via the main breadwinner, for those where the main breadwinner lives at the same home (for example, where the dependant and main income earner are part of a farming family).
Micro-	Well served (only 36% excluded), but 34% use	Main financial service needs:

Target Market	Current usage profile	Main realities and financial service needs
enterprises 2.2m (15% of adults)	informal or family & friends only. Higher than expected credit exclusion (89%) and surprisingly low use of informal credit. 50% save, most of them informally. Many save in-kind, with 11% saving in cattle and 11% saving in-kind other than cattle (primarily in their businesses). This group also shows significant usage of transactions and remittances.	• Safe store of value that can facilitate high transaction volume for business float and regular purchase of stock • Credit for "driven achiever" MSMEs, which have average income higher than most Mozambicans The needs of this target market vary widely, depending on the aspirations and level of education of the business owner. Broadly speaking however, business owners of all incomes have a need to smooth their cash-flow in order to buy stock. Currently, this is often done through *xitiques*, which intermediate resources among groups of microentrepreneurs. Products that facilitate this type of transaction activity could help improve the efficiency of these mechanisms. Business owners that have both the potential as well as the drive to succeed (the so-called "driven achievers"), which are a smaller subset constituting only 5% of MSMEs, may also benefit from products that provide credit for productive purpose. The fact that many personal loans are used for business purposes is an indication of some demand for MSME credit.
Biscato 1.5m (10% of adults)	45% included, but only 17% formally. The total percentage that saves, formally or informally, is approximately the same as farmers (27% and 26% respectively). This group also uses formal and informal remittances, and relatively high use of informal credit (8%). *Biscato* use credit for low-value agricultural inputs almost to the same extent as farmers (27% and 30% respectively).	Main financial service needs: • Safe store of value • Remittances • Credit for low-value agricultural inputs *Biscatos* have a particularly unstable income profile due to the short term nature of their employment. They also typically have very low skills levels, with limited scope for progressing to formal employment. All of this severely challenges formal as well as informal financial service usage – as witnessed in the very low penetration level of those types of services requiring regular contributions. At the same time, their low and irregular incomes suggest a need for income smoothing instruments. Furthermore, those that travel to find work elsewhere, for example to pursue seasonal opportunities in agricultural work, have a need to remit safely and securely. Since this group does not belong to a single industry and are not networked in any organized way, it is very difficult to reach them for financial inclusion purposes. However, *biscato* use of credit for low-value agricultural inputs is comparable to that of farmers. It is possible that there might be limited opportunities to reach this target market with credit for low-value agricultural inputs. However, as they lack the opportunity to form associations in the same way as farmers, reaching them with credit products will be more challenging.
Salaried workers 687,000 (5% of adults)	High formal access (66%), of which transactions most formal (58%), but savings are mostly informal (26%, plus 3%	Main financial service needs: • Safe store of value, particularly if the percentage receiving salary via direct deposit is increased

Target Market	Current usage profile	Main realities and financial service needs
	family & friends). Surprisingly low use of credit (11% bank, 5% informal).	• Credit from payroll lenders – can also be leveraged for productive purposes given their tendencies to engage in agriculture and linkages with those outside of the citadel walls • Credit life insurance (which also replaces the need for collateral in early development of credit markets) Due to their formal employment and urban status, salaried workers have stable incomes and are more likely than most to be able to meet typical eligibility requirements for financial services. However, this group struggles to meet its credit and savings needs in regular banks, as demonstrated by their high level of informal savings, and their use of microfinance focused banks for credit. This group may also use informal options based on preferences, convenience and other factors. If salaried workers can be better served by formal providers, their linkages to agricultural activities and relatives outside of the citadel may be leveraged for productive purposes. Asset finance may be used to overcome the collateral challenges that they are likely to face.
Government workers 635,000 (4% of adults)	Virtually everybody included, driven largely by bank accounts, but thinly served. Highest formal credit and savings (>40%), low informal credit, but relatively high informal savings, some informal insurance. 1/3 have formal insurance.	Main financial service needs: • Can benefit from loans for productive purposes; • Direct deposit, as many still not be paid via banks; • Safe store of value; • Remittance sending options; and • Life insurance (including credit life insurance). Given their high incomes, superior education as well as all round good access to financial services, government employees may not be the primary target for further financial inclusion, at least where basic banking services are concerned. However, there is still substantial room for growth in terms of credit, formal savings, and insurance penetration. This is particularly true of those on the lower-end of this target markets income spectrum. Microfinance-focussed credit providers, and more recently payroll lenders, have regularly served this market, many of whom operate businesses as a secondary source of income. Furthermore, this segment plays a crucial role in supporting others, as evidenced by their heavy involvement in sending remittances. Almost two thirds are also involved in agriculture on the side. As main breadwinners in the family, they may provide a useful link to others that are not already financially served, plus their access to credit such as payroll and other personal loans may be leveraged for productive investments "outside the citadel walls".

Table 33: Summary of target market needs

Source: authors' own, based on FinScope (2014) and qualitative demand-side research

The remainder of the discussion will focus on action items for short-term and longer-term impact on welfare and overall economic growth.

7.3. Financial inclusion priorities

Financial inclusion is a means to improve the welfare of Mozambicans and contribute to financial sector development and economic growth. Financial inclusion seeks to achieve this by providing better tools for people to manage risk, smooth consumption, and build and protect assets. The findings of MAP Mozambique are intended to provide an evidence base that can inform policymakers, and other stakeholders in prioritising activities to reach thinly served and excluded populations.

Given the complex and challenging environment described above, priorities for enhanced financial inclusion fall broadly into two categories. First, core actions must be taken to better meet the needs of thinly served target markets, which will help markets to continue developing. Second, priorities must also focus on addressing systemic or structural issues that have led the current environment to evolve in a manner that is not conducive broad financial inclusion. Together, these twin categories will allow the necessary market development and enabling environment start pushing the 'access frontier' towards a position where excluded target markets can be more feasibly reached at scale.

This section discusses the relationship between thinly served and excluded markets, followed by an overview of challenges and opportunities for improving access.

7.3.1. Understanding excluded and thinly served, and the relationship between the two

Reaching the thinly served important for further market development. Compared to most target markets, the thinly served primarily come from the two higher-income earning target markets of salaried and government workers, and also have the highest take-up of financial services. However, salaried and government workers are still underserved and struggle to meet all of their financial needs. Improving access for these markets is an important and necessary step in propelling further development of various product markets. Better reaching these groups enables markets to build the necessary foundations from which to grow. Doing this will make it possible to start moving the access frontier, and open improved opportunities to reach lower-income and excluded populations.

Together, salaried and government workers constitute about 1.3 million adults. Even though government workers are have the highest take-up of financial services, they remain thinly served and there are still opportunities to reach more of this market. For example, 34% of government workers (just under 216 000 individuals) do not have a bank account. Salaried workers are also thinly served, with even less access as compared to government workers. A simple but important starting point is for banks to be enabled to deliver better products and services for their existing customers. To illustrate, for those that receive salary through direct deposit, it has been commonly reported that most people withdraw their entire salary as soon as it is available. To incentivise people to leave their salary in banks until needed, it is critical that that the payments footprint be expanded and interoperability developed so that people will have more convenient access to cash points. While this will encourage those with direct deposit to start keeping their earnings in a bank, others will also likely start migrating towards banks as a place to keep their money safe.

For thinly served salaried and government workers, inroads can be made in deepening access to multiple products. Many people within these markets have only one financial product, commonly a transaction or deposit account. But many are not able to meet all of their needs, such as credit, from their regular bank. These markets are also well-positioned for expanded offerings such as insurance. Only 15% of salaried and 35% of government workers have formal insurance. Bancassurance is growing, and can be an avenue for reaching banked but thinly served customers.[308] Credit-life can also serve as a way to overcome the need for collateral or the lack of sufficient information about customer indebtedness.

Thinly served markets provide links with excluded populations. Those inside the citadel often keep one foot outside the citadel walls. As noted in the target market needs table above, those inside the citadel also have ties to those outside the citadel walls – be it via remittances, involvement in agriculture or other activities for secondary income, or their ability to take out insurance that will also cover family members such as dependants. Thus focusing on the insiders can also have a ripple effect outside the citadel walls. In particular, their access to credit can be leveraged for productive investments. Such credit does not necessarily need to be dedicated agricultural or MSME finance (though tailored product could provide better value). In addition, even those with deposit accounts at a bank often save informally through *xitiques*. In this context, *xitiques* can serve as a means of capturing resources earned in the formal and intermediating those among excluded groups.

Similarly, an important way of reaching farmers in rural areas may be through ties with family and community members that are inside the citadel walls. Even among government workers, almost 60% are involved in agriculture. These individuals have access to personal loans which can be applied for investment in agricultural inputs or other business ventures in rural areas.

7.3.2. Creating an enabling regulatory environment

The regulatory environment in Mozambique faces challenges both in terms of substantive provisions and in terms of process. Because of touch points with all sectors, some regulatory changes might be a prerequisite to leveraging many other strategic priorities discussed below. The key regulatory considerations for unlocking various opportunities are discussed here.

Revisiting unintended consequences of Aviso 5/2009. Motivated to better protect consumers, Aviso 5/2009 was intended to increase transparency and reduce fees in the market. However, it has had the unintended consequence of masking the cost of cash and stacks client and financial institution incentives against converting to electronic payments. In addition, because providers are prevented from charging certain fees, they must recover costs through other fees. This has resulted in less transparency in pricing of products and services.

Clarifying opportunity for using banking agents. Mozambique is actively reviewing and assessing legislation for allowing banking agents. However, without a consultative process and with a lack of transparency, it is not possible to determine whether the contemplated approach will facilitate financial inclusion. If done right, allowing proper use of agents will

[308] The main risks about which Mozambicans are concerned are related to illness and death, or property damage. Life product, particularly compulsory credit life which has already driven insurance market development, can be expanded within these groups. However, especially given that government workers are often involved in side-business or savings in cattle, there may be additional voluntary insurance products for covering these assets. The same may be true for aspirational MSMEs.

greatly enhance the reach of financial services.

Need for regulatory proportionality. With much of Sub-Saharan Africa approaching AML/CFT mutual evaluations, there are two competing forces influencing regulator and provider behaviour. There is a drive to promoting financial inclusion, yet there is also pressure to enact appropriate legislation and conservatively apply AML/CFT regulations. Consequently, there is a danger that countries will overlook the unintended impact that such regulations can have by preventing access. However, the new KYC regulations in Mozambique open the door for proportionality by eliminating the requirement for showing proof of address for occasional transaction below a defined threshold. These simplified KYC measures are not available for ordinary bank relationships (such as deposits or credit). Nonetheless, this is a positive step that can be taken further to enact proportionality for other types of financial products and services. Regulators can also consider eliminate other eligibility barriers.

While there is some degree of proportionality in the multi-tiered regulatory structure for credit providers, there is no notable proportionality in practice. Microfinance focused providers at various regulatory tiers are bound by the same compliance and oversight requirements as the largest banks. In order to reduce compliance burdens and therefore costs, proportionality must be played out in practice. This will also enable providers to more effectively leverage innovations such as agents and mobile money.

Legal system out of touch with financial sector in many areas. Until the rules by which people live determine the laws and regulations in the formal system[309], the Mozambican legal system will not be relevant for most of the population. For example: incorporating the way contracts are entered into and enforced in the informal legal system into the civil system could enable formal providers adjust processes for entering into business relationships that is more familiar for the majority of Mozambicans.

Coordinating among financial policymakers. There appears to be competing policies within the BdM. One department pushes for increasing branch networks, while another is dedicated to developing alternative distribution channels. This competition, which generates confusion and uncertainty among providers, makes innovation and increased market penetration difficult.

More proactively consulting industry. The lack of transparency in the policy making and legislative processes creates uncertainty. Relationships between regulators and providers have often come across as confrontational. This may impact providers' appetite to innovate on everything ranging from mobile money to partnering with agricultural outgrower schemes. Institutions need clarity in order to innovate in ways that can reach excluded markets.

7.3.3. Shaping the payments ecosystem

Payments system central to improvements at all levels of economy. The payments system is central to unlocking potential at all levels of the economy, from improving access to low-value financial service in rural areas to improving efficiencies and reducing costs for even the largest banks. There are multiple aspects to the challenges facing the payments system, but overall

[309] For example: 6% of farmers save in cattle. While this is a small percentage of total farmers, recognizing cattle as collateral could help increase access to credit for a smaller segment of farmers. However, this must be approached carefully as farmers may also receive some income in-kind, which would make cash repayments of loans difficult.

these revolve around the need to achieve interoperability and expanding the payments footprint. This action plays an enabling or prerequisite role, to varying degrees, in each of the other opportunities. Even the largest banks and companies find that cash must be physically transport around the country. This is costly, inefficient, and limits the availability of cash for other uses or from circulated in local areas. Furthermore, these inefficiencies add to the cost of electronic payments, since appropriate cash out points must be available throughout the country. These current conditions in the payments system negatively impacts the entire economy.

Interoperability within reach. Many costs and inefficiencies throughout the economy stem from the lack of interoperability in the payments system. This drives up costs for banks, which must be passed down to customers. It also results in large-scale inefficiencies, such as reliance on manual cheque clearing for accounts between even the large banks and limited functionality for excluded populations. And yet, the most sophisticated payments system in Africa is found in Interbancos. Interoperability is achievable by leveraging Interbancos. However, the largest banks have an incentive not to join Interbancos.

A payments footprint is central to improving access. Cash points must include, at a minimum, a larger ATM and POS infrastructure. Increasingly, mobile money agents also fulfil a role as cash agents. Even in urban areas, the infrastructure for ATMs and POS cannot keep up with demand. Developing payments interoperability and an expanded footprint will also help local economies by facilitating the circulation of cash within more localized areas.

SIMO creates uncertainty about future of payments infrastructure. In early 2015, the BdM mandated interoperability in the payments system, designating SIMO as the platform. Uncertainty about SIMO's future had served as a disincentive for banks to invest in developing their payments infrastructure. As discussed above, the lack of infrastructure development results in limited use of electronic payments by even large banks or businesses, and also limits available cash points for expanding mobile money offerings to thinly served and excluded populations. However, although interoperability has now been mandated, uncertainty persists with regards to implementation of this policy. In particular, as a network and not a switch, SIMO lacks the systems necessary to facilitate interoperability which makes it unclear as to how this will be achieved.

7.3.4. Developing alternative distribution channels

Mobile Money can reach markets more easily than banks. Mobile money operators (MMOs) are particularly well positioned to reach excluded markets because they have a very different client orientation than banks and many microfinance focused providers. For example, the newest mobile phone entrant, Movitel, has a primarily rural footprint. Mobile network operators also have a larger customer base than almost all financial institutions combined. Because MMOs are technically licensed as credit institutions, they could potentially offer a range of financial services, or in the alternative partner with other formal providers to offer services.

Current regulatory environment not conducive to mobile money. With regards to regulation, MMOs must still seek authorization to offer financial products beyond money transfers despite the fact that they are licensed credit institutions. Both existing MMOs have expressed interest in deposit taking, and at least one has partnered with other providers to pilot mobile

credit repayments. However, the lack of regulatory proportionality makes it difficult for MMOs to innovate and expand services.

Insufficient distribution networks to enable mobile money. As Mozambique is a cash economy, mobile money will largely be used as a means to transfer, access or store cash. Therefore, the use of mobile money will be limited if there are insufficient and reliable cash points enabling people to access their funds when needed. In addition to expanding ordinary payments infrastructure such as ATMs and POS devices, the development of alternative distribution channels, such as agents, retailers, and petrol stations, will be indispensable to providing sufficient cash points. Without this, mobile money usage will not reach scale. Yet all of these, as the analysis revealed, face structural challenges going to the heart of the enabling environment and incentives of financial institutions.

Promote alternative distribution channels. Alternative distribution channels are particularly challenging in Mozambique. Petrol stations pay for petrol deliveries in cash, rather than electronic payments. Post offices provide some money transfer services, but this is not streamlined, electronic or integrated. Furthermore, at the time of research, no retailer had more than five stores in its network. Yet, the only way to extend cash points is to leverage entities such as these, as well as developing agent networks for formal financial institutions. However, this will have limited impact until the issues of payments interoperability and infrastructure has been addressed. This is illustrated by Figure X, which investigates the relationship between the distance respondents in FinScope (2014) reported financial infrastructure[310] and the number of financially included individuals[311]. This highlights that access is concentrated around the current payments infrastructure. In Tete and Manica, despite respondents being relatively more closely located to financial infrastructure, financial inclusion is significantly lower, likely due to the challenges of interoperability.

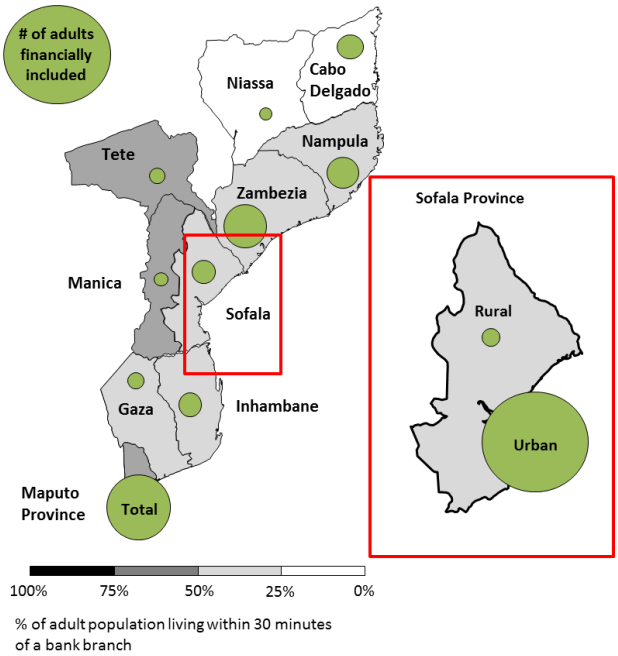

Figure 101: Correlation between the distance from a bank branch and financial inclusion.

[310] The proxy for financial infrastructure is a bank branch in this analysis.
[311] Defined as those with a bank account.

Different vehicles to reach different target markets. Of those Mozambicans who have a bank account, 25% said that one of their main motivations for opening the account was to be able to send or receive money. Government workers are the main remittance senders, and dependents are the main remittance receivers. *Biscato* are also relatively involved with remittances. In the microenterprises segment, money transfer options could help market-traders manage their business float. Where such traders belong to a business *xitique*, a group account option could be considered. Microenterprises could also benefit from more appropriate B2B options, as most business accounts are settled through physical instruments (this is even true of the large banks).

7.3.5. Safe store of value

All target markets can benefit from safe store of value products. The most commonly used financial service in Mozambique is savings. Including all formal and informal savings, and including both monetary and in-kind savings, 32% of Mozambicans save or take up financial services with savings options. However, only 14% use bank products that can be used for savings, whether interest-bearing savings accounts or transaction, current and other types of accounts that can be used for safe store of value. Of those Mozambicans with a bank account, 64% said that one of their main reasons for opening the account was to keep money safe, and 31% did so to save or accumulate money (which would include interest-earning products). However, the most common savings mechanism is through *xitiques*, in which 14% of Mozambicans participate. *Xitiques* are more than just a savings mechanism, though, and in reality serve a more sophisticated role for resource intermediation. To gain traction at scale, bank accounts must provide the same safe store of value, accessibility and appropriateness of product features as *xitiques*. Importantly, funds intermediated through *xitiques* could also be linked into the formal system via group accounts. However, initiatives in this regard have gained little traction to date, which may be indicative of the broader ecosystem constraints highlighted throughout the analysis. Lastly, as people acclimate to formal savings options, in the future interest-bearing savings accounts can be further developed for those with more surplus income. However, as with other product opportunities, cash points must be reliable and within appropriate physical proximity. Cash points can include expanded payments infrastructure such as ATMs, POS devices, and bank branches, but it will also be indispensable to leverage agents, retailers, petrol stations and other alternative distribution channels.

MMOs as vehicles for savings. Currently, MMOs can already offer safe store of value products. One MMO has offered such a product capped at MZN 3 000. This amount might accommodate the needs of many Mozambicans. However, raising the limit would allow even greater access for thinly-served markets, or farmers with seasonal income that may need to make more lumpy deposits that exceed the cap. In the short-term, urban markets with better access to payments infrastructure can already benefit from enhanced MMO offerings. However, as the payments footprint and alternative distribution channels are expanded, this can eventually benefit all target markets.

Prepaid cards demonstrate potential. Prepaid cards, which are starting to be used by employers to pay salaries, could have expanded functionality to accommodate store of value. If improvements in the payments ecosystem result in more use of cards for transacting, banks may also be incentivised to more widely offer prepaid cards for safe store of value.

7.3.6. Reaching farmers through aggregators

Farmers excluded from credit. Farmers in Mozambique are often considered high risk for lending practices due to the large fluctuations in their income, particularly following a seasonal pattern. They also do not own their land and their principle income, their crops, is vulnerable to flood or drought. They thus often find themselves excluded from any type of productive credit extension.

Aggregators part of the solution. One of the key ways to reach smallholder farmers is through aggregators, such as outgrower schemes, which are best positioned to understand farmers' needs and have existing relationships with farmers. They therefore present a single entry channel through which to reach a multitude of individuals. Though such aggregators by no means reach the majority of the farmer target market, there are nevertheless at least a few hundred thousand farmers connected in this way.

Aggregators already support farmers in other ways. Aggregators already work with farmers to facilitate access to credit for lower-value inputs such as seeds and fertilizers. In addition, aggregators are often the avenue through which smallholder farmers are able to plug into value chains. Unlike with the sugar industry, much of tobacco, cotton, and other crop production in Mozambique is sourced from smallholder farmers as part of large agricultural value chains (sugar is primarily produced by large commercial farmers). It might be possible to leverage the relationship that aggregators have with farmers to facilitate group credit or savings offerings, or to introduce payments for produce via a digital platform.

Aggregators must see benefit. Distribution benefits are key to the business case for many agricultural aggregators. However, it is also essential that there is a clear value proposition for the aggregator in distributing financial services. If such value proposition does not relate to the core business of the aggregator (e.g. protection against loan default or better cash management, more loyalty from farmers, enhanced productivity on the part of farmer, etc.), it is unlikely that the conditions will be in place for a sustainable long-term partnership.

7.3.7. Unlocking credit

Capital cosntraints limit available credit throughout the economy. Petroleum imports in dollars tie up significant capital for most commercial banks. Coupled with inefficiencies in the payments system, severe capital constraints greatly limit available credit. Large banks put what little credit they can extend towards higher profit activitie at the expense of excluded and thinly served target markets. Furthermore, the short term nature of the credit that is available means that longer term credit (such as mortgages) cannot be extended without an unacceptable risk being borne by the provider.

Expansion of payroll lending for better depth of inclusion. Currently payroll lenders serve almost exclusively government workers. While a limited market, this was sufficient to enable one of the payroll lenders to become the ninth largest credit provider in Mozambique within only two years of operations, providing credit at lower cost and longer terms than microfinance banks. If private sector salaried workers can access payroll lending, those that are already financially included, but only thinly served, could be better reached. As highlighted above, the expansion of the payroll market does not necessarily only have implications for consumptive credit. Given the stark access barriers faced by those outside of the citadel walls,

personal loans to those inside the walls may in effect be a tool for productive investments, risk coping or income smoothing also outside of the citadel walls, via ties with family and friends. As many borrowers use their payroll loans for MSME and farming activities to supplement income, payroll lenders could better serve customer by offering prodcuts tailored to meet this specific needs.

Taking deposits will enable payroll lenders to reach new target markets. Payroll lenders currently do not take deposits. Doing so would allow them to better serve their existing clients, while building a firmer capital base from which to start reaching additional target markets. By offering more affordable and convenient access, informal savings could be enticed into the formal system. This would also allow payroll lenders to reduce their dependency on head office funding, leading to a higher level of independence.

Payroll demonstrate the market development potential of reaching thinly served. In order for payroll lenders to better reach a broader market, more formal sector employers must accommodate payroll deduction services, or payroll lenders themselves may be able to offer such services. One of the main main reason that payroll lenders focus on government workers is because they are easily identified using government databases. Therefore, in order to reduce default risks and keep interest rates low, payroll lenders must have a reliable way of identifying and assessing credit risk of non-government workres.

Credit bureau does not provide sufficient information of customer credit history. The current credit bureau does not serve as a depository or sharing platform for credit information, but only gathers limited information about bounced cheques. By gathering sufficient information that can show a more complete picture of cusomter indebtedness, providers such as payroll lenders may be incentivised to better serve non-government workers.

Onather way of overcoming concerns about creditworthiness or the need for collateral could be through the expansion of asset-based finance. Ths could be of particular benefit for microentrepreneurs to enable purchase of appliances or vehicles that can be used as business inputs. Salaried and government workers could benefit from asset-based finance for purchasing household items.

Leverage informal lending mechanisms. It is important to note that the analysis showed throughout that informal, community-based financial services fill an important gap. Further engagement is needed to explore the opportunities for strengthening and growing the role of *xitiques* and ASCAs as well as, where relevant, linking them into the financial system. This also holds for the valuable role fulfilled by *agiotas*. Some *agiotas* have started to register under the lowest level microfinance tier – the only regulatory category of credit providers that seems to benefit from proportionate regulation. Should more agiotas gain legitimacy through this licensing option, it could help facilitate access to credit. Enforcing formalisation however does not appear a viable or desirable option.

7.3.8. Expanding insurance offerings

Credit life: Deepening both insurance and credit access. Expansion of credit life insurance may represent an opportunity to assist the development of the insurance market. It can also help reduce the need for collateral in a credit market.

Government, salaried, aspirational MSMEs good incubator for credit life. Government and salaried workers, particularly those that receive their salaries via payroll represent an opportunity to catalyse the credit-life industry. Payroll provides the touch point and some of the required information in order to extend credit as well as an easy collection mechanism, while the higher incomes of government and salaried workers would make credit-life more affordable as compared to other target markets. This would also be true for aspirational MSMEs.

Farming aggregators key for insurance. Farmers could benefit from simple, entry level products such as hospital cash plans, and basic life insurance. These could be provided through partnerships between providers and aggregators.

Focussing in these areas will allow insurance market to grow, and start setting the stage for expanded reach and types of insurance products.

7.3.9. Positioning the imperatives relative to financial institutions' current playing field

Figure 102 places the roadmap priorities in perspective vis-a-vis the current playing field of different types of financial institutions.

Ability and incentive to go down-market. The **vertical axis** plots different types of institutions in terms of their ability and incentive to go down-market. It is clear from the analysis that banks, payroll lenders, insurers and pensions all face significant barriers to reaching beyond the citadel walls at scale (though, as discussed above, there are opportunities for payroll lenders to better reach target markets). The various categories of microfinance focused providers traditionally serve those lower in the income spectrum, but are increasingly finding it difficult to serve informal target markets. MNOs[312] serve a large, representative client base in terms of income and geography. If mobile money offerings can be expanded and made accessible through reshaping the payments ecosystem (as described above), MMOs would be very well positioned to become the service providers of choice in the lower-income and rural end of the financial services market. Lastly, the community-based informal providers, notably *agiotas*, *xitiques* and to a lesser extent ASCAs are already focused on the lower-end of the market. These can be leveraged as channels for reaching excluded and thinly served populations.

Accessibility to lower-income segments. The **horizontal axis** considers the extent to which different types of institutions are preferred and/or perceived as accessible or "for us" by customers outside of the citadel walls – based on the demand-side research. No matter where financial institutions play, customers must choose to take up their services. It is clear from the demand-side research that insurers, pensions and, to a lesser extent, banks and payroll lenders are not really perceived as accessible. Microfinance focused providers, followed by MNOs, are perceived as more accessible, with the informal institutions at the top right being seen as the most accessible and focussed on lower and middle-income target markets.

[312] Note: the circle intentionally refers to MNO client base and not current mobile money reach. This represents the potential mobile money opportunity, even though current mobile money reach is still low.

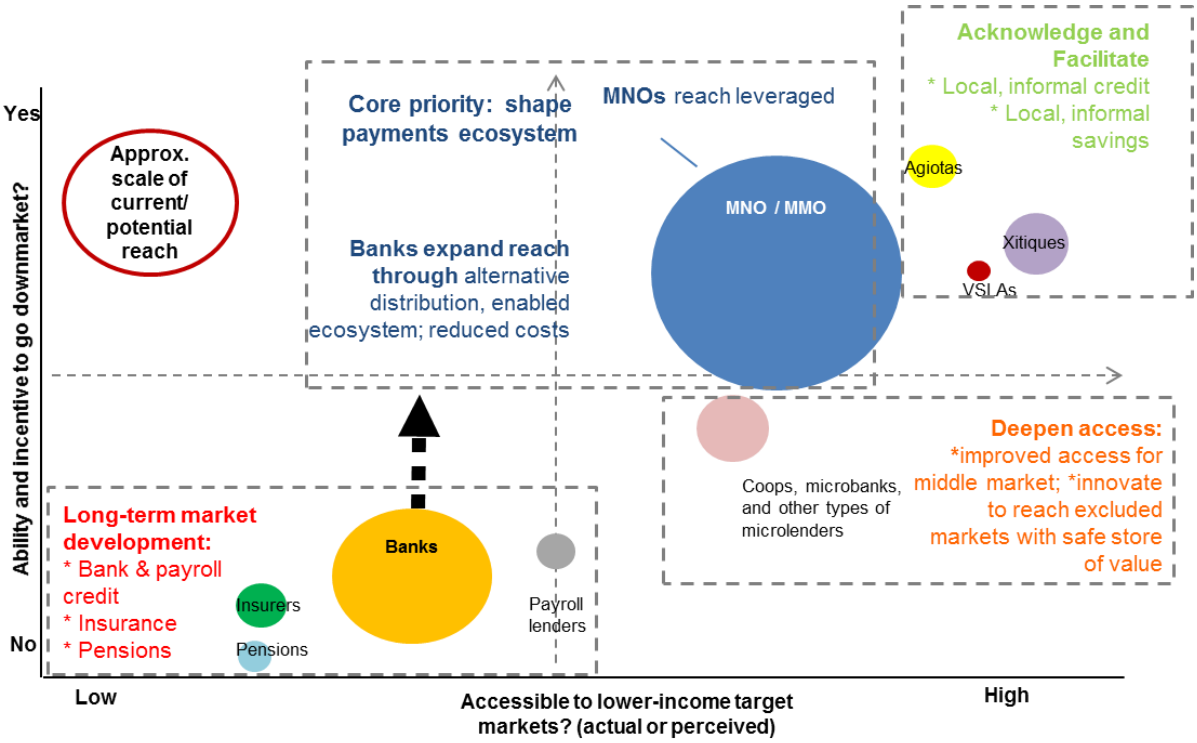

Figure 102: Positioning roadmap priorities

Source: authors' own[313]

The priorities listed in this section aim to bring about the following changes:

- Reaching thinly served with more appropriate products will promote continued market development, which is a necessary step in order to build a foundation from which to push the access frontier and reach excluded populations.
- The enabling environment changes will eventually impact financial institutions across the board, enabling a general and gradual migration towards the top and right.
- Over time, the enabling environment improvements can lead to specific credit-related opportunities being unlocked.
- Where the payments ecosystem is concerned, the priority is to "pull banks up" the y-axis in their payments operations, while in parallel unlocking the full payments potential of MMOs and leveraging alternative distribution channels.
- At the same time, the current role of the informal providers in the top right will be acknowledged and strengthened.

[313] Note that the diagram is an approximation based on the analysis and is therefore indicative only. It does not represent actual sizes or objectively measured positions on the two scales.

7.4. Conclusion

This section has shown that the current country context, supply-side, target market and enabling environment features imply that it is probably too soon to make substantial ground level financial inclusion inroads in Mozambique. Due to the significant constraints at play, the core payments strategy is the top priority. Simultaneously, reaching the thinly served with a wider array of prodcuts will spur continued market development, which is necessary for moving towards harder to reach target markets. This is a stark finding that may not sit well with most stakeholders. However, this will facilitate the natural course of market development.

The most immediate priority is to do what can be done to develop the core (in terms of the payment system and the core regulatory framework) and improve the efficiency of current market operations, as these are prerequisites for an eventual move down-market as per the access frontier model. If not carefully considered, such an approach could inadvertently entrench the citadel economy. It will be important to highlight the low-hanging fruit in terms of further expansion and deepening of the current reach within the most feasible target market segments, the knock-on effect of better reach at the top via these individuals' family/community and agricultural/potential business ties outside of the citadel walls.

An equally important strategy arising from the analysis is the need for development partners to build a bottom-up understanding of how the economy functions at a local level and, in their engagements, to be able to connect the dots for market and regulatory players. MAP provides a broad, first-level picture, but further immersive research will be required. Likewise, the segmentation exercise introduced here needs to be taken further and leveraged to inform specific financial institution and regulatory strategies.

Furthermore there is a clear priority to support local intermediation through the development of targeted programmes to extend the reach and build the capacity of *xitiques* and promote linkages with banks and other formal financial institutions to bring the funds inside these organisations into the nationally intermediated pool.

Lastly, and perhaps most importantly, long-term, patient engagement is required to continuously "chip away" at building the necessary market infrastructure, changing mind-sets and ensuring that regulation creates the right market incentives. Engagement is also needed on ways to improve physical infrastructure, connectivity and the working of the legal system for financial inclusion purposes. Achieving this will require close collaboration between government and private sector stakeholders.

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Annex A: Meeting List

All stakeholder meetings took place in November and December of 2013.

Institution Name
Socremo Banco de Microfinanças, SA.
Vodacom
Associao Progresso
Ariseguros
Banco Tchuma
NICO Vida
Real Seguro
Hollard
TechnoServe
Millenium Seguros
Gapi, Sociedade de Investimento
AMODER (Associação Moçambicana para o Desenvolvimento Rural)
Kuthokoza
New Faces, New voices
Mdzua
AMOMIF (Associacao Mocambicana de Operadores de Microfinancas)
Agence francaise de developpement
International Fund for Agriculture Development
Deutsche Gesellschaft für Internationale Zusammenarbeit
Letshego
Bayport
Caixa Comunitária De Microfinanças (CCOM)
African Banking Corporation Mozambique (BancABC)
First National Bank FNB
Banco Comercial e de Investimento (BCI)
Banco Unico
United Bank for Africa, SA (UBA)
Standard Bank
Mozabanco
Banco Terra
Barclays
Interbancos
Correios de Moçambique
Banco ProCredit
Africa Works
AC Microbanco
Microbanco De Desenvolvimento Da Mulher
Banco Oportunidade de Moçambique
Khan Microcrédito

Petromoc
Vodacom
mKesh

Annex B: Personal loans

Provider	Loan size (MZN)	Interest rates	Term length	Eligibility criteria	Additional costs
Individual					
Africa Works	30 000 - 500 000	3.5% monthly	2 - 12 months	Business plan or product inventory	
Adem	500 - 140 000	10% monthly	1 - 3 months		Compulsory savings (MZN 50); Social fund (MZN 10 - 20 monthly)
Banco Oportunidade De Moçambique	500 - 150 000	1% monthly	12 months	Minimum income (MZN 5 000); Proof of income	Compulsory credit life and funeral
Banco Oportunidade De Moçambique	5 000 (min)	3% monthly	12 months	Minimum income (MZN 5 000); Proof of income	Compulsory credit life and funeral
AC Microbanco	n/a	5% - 7.5% monthly	1 - 12 months	Proof of income	Compulsory credit life
Kuthokoza	5 000 - 150 000	20% - 30% monthly	1 - 3 months	Proof of income	
CreditRapido	50% of salary	30% monthly	1 - 3 months	NUIT,3 Bank Statement of last 3 months, ATM Multibanco Card, proof of income	
Kulima MicroBanco	5 000 - 10 000	4% - 7% monthly	1 - 3 months	Proof of income	Initiation fee (MZN 200)
Letshego	3 000 - 100 000	2% monthly	6 - 72 months	NUIT,3 Bank Statement of last 3 months, ATM Multibanco Card, proof of income	Compulsory credit life and risk insurance
Socremo	5 000 - 350 000	4.25% - 4.52% monthly	6 - 18 months	Proof of income	Compulsory credit life
Microbanco De Desenvolvimento Da Mulher, SA	1 500 - 30 000	3.5% monthly	1 - 6 months	NUIT,3 Bank Statement of last 3 months, ATM Multibanco Card, proof of income	Compulsory savings (MZN 200); initiation fee (MZN 200)
CMS Microcrédito	500 - 10 000	2% - 8% monthly	3 months	Proof of income	
Fundo De Desenvolvimento Da Mulher	3 000 - 6 000	3% - 5% monthly	2 - 4 months	Proof of income	
Caixa Comunitária De Microfinanças (CCOM)	10 000 - 50 000	3% monthly	6 - 12 months	At least 1 year of experience in commercial area, bondsman procurement	Entrance fee (MZN 50)
Caixa Comunitária De Microfinanças (CCOM)	1 000 - 4 000	4.5% monthlyl	6 months	Proof of income	Entrance fee (MZN 50)
Group					
Africa Works	1 500 - 75 000	4% monthly	4 months		
Banco Oportunidade De Moçambique	4 000 - 70 000	6% monthly	9 months	Minimum income (MZN 5000)	
Banco Oportunidade De Moçambique	n/a	3% monthly	9 months	Proof of income	
Kulima MicroBanco	25 000 - 50 000	6% monthlyl	1 - 6 months	Proof of income	
Caixa Comunitária De Microfinanças (CCOM)	1 000 - 50 000	4.5% monthlyl	6 months	Proof of income	Entrance fee (MZN 50)
Large Credit Institutions					
African Banking Corporation Mozambique, SA (BancABC)	450 000 (max)	22% annually	0 - 60 months	Minimum income (MZN 14 000)	
Banco Internacional de Moçambique, SA (Millennium BIM)	1 500 - 300 000	21% annually	6 - 60 months	Must receive salary in Millenium BIM	Compulsory credit life
Barclays Bank Moçambique, SA	10 000 - 500 000	19% annually	12 - 60 months	Minimum income (MZN 5 000)	Compulsory insurance (presumably credit life)
Moza Banco	25 000 - 2 000 000	17.5% annually	12 - 36 months	Minimum income (MZN 25 000)	Compulsory payment projection plan
Banco Comercial e de Investimento (BCI)	Up to 80% of value required	26% annually	3 - 36 months	Minimum income (MZN 50 000)	Compulsory credit life
United Bank for Africa, SA (UBA)	2 000 000 (max)	24% annually	36 months	Minimum income (MZN 100 000)	Compulsory credit life

Annex C: Agricultural loans

Provider	Loan size (MZN)	Interest rates	Term length	Eligibility criteria	Additional costs
Microbanks					
Africa Works	15 000 - 100 000 (Chicken production)	2% monthly	n/a	Proof of income	
AC Microbanco	Negotiable	n/a	2 - 12 months	Proof of income	Compulsory credit life
Microbanco De Desenvolvimento Da Mulher, SA	5 000 - 100 000	2% monthly	1 - 9 months	NUIT, the borrower must have current account in this	
Commercial Banks (Microfinance Focussed Banks)					
Banco Procredit	100 000 (min for cattle)	1.8% - 4%	9 -60 months	Business activity documentation (Licences, NUIT, articles of association, financial results, guarantee)	
Credit Cooperatives					
Caixa Comunitária De Microfinanças (CCOM)	1 000 - 5 000	3% monthly	4 - 9 months	At least 1 year of experience in commercial area, bondsman procurement	Entrance fee (MZN 50)
Caixa Comunitária De Microfinanças (CCOM)	1 000 - 22 000	3% monthly	4 - 9 months	At least 1 year of experience in commercial area, bondsman procurement	Entrance fee (MZN 50)
Large Commerical Banks					
Banco Terra, SA	Up to 100% for established business; up to 50% for new business	23% annually	36 - 60 months	Minimum income (MZN 250 000), NUIT, Business plan, DUAT, finacial report	Compulsory credit life
Moza Banco	500 000 - 30 000 000 (for "small and medium enterprise" loan)	17.5% annually	6 - 60 months	Viability project study; project earnings consignment required; quarterly trials administration required; must receive salary in Moza	Equipment and immovable multi risks insurance

Annex D: MSME loans

Loan size (MZN)	Interest rates	Term length	Eligibility criteria
Microbanks			
3 000 - 100 000	10% monthly	12 months	(Proof of income)
50 000 - 100 000	6% monthly	1 - 6 months	Proof of Viability/feasibility of the activity
10 000 - 300 000	3% monthly	1 - 24 months	NUIT, borrower must have current account in this institution
Commercial Banks (Microfinance Focussed Banks)			
100 000 (min)	2% - 5% monthly	9 - 60 months	Business activity documentation
15 000 - 300 000	72% annually	n/a	Minimum income (MZN 5 000)
400 000 - 5 000 000	39% annually	60 months	Proof of income
200 000 - 7 000 000	39% annually	6 - 60 months	Proof of income
Credit Cooperatives			
1 000 - 5 000	4.5% monthly	6 months	At least 1 year of experience in commercial area, bondsman procurement
10 000 - 100 000	4.5% monthly	6 - 12 months	At least 1 year of experience in commercial area, bondsman procurement
10 000 - 50 000	4.5% monthly	6 months	At least 1 year of experience in commercial area, bondsman procurement
Commercial Banks			
500 000 - 30 000 000	17.5% annually	6 - 60 months	Viability project study, reporting, salary in bank

Annex E: Asset Finance

Provider	Product	Loan size (MZN)	Interest rates	Term length	Minimum income requirement (MZN)	Additional requirements
Commercial Banks (Microfinance Focussed Banks)						
Banco Procredit	**Home**	100 000 (min)	2.3% - 3.25% monthly	9 - 60 months	n/a	Proof of formal employment, NUIT, etc.
SOCREMO - BANCO DE MICROFINANÇAS, SA	**Home**	25 000 - 200 000	39% annually	60 months	5,000	Proof of formal employment
Commercial Banks						
First National Bank Moçambique, SA (FNB)	**Home**	Up to 80% of purchase value	21% annually	20 years (max)	50,000	Must receive salary in bank
African Banking Corporation Mozambique, SA (BancABC)	**Home**	Negotiable	19% annually	60 months	14,000	Must receive salary in bank
Banco Terra, SA	**Home**	Up to 100% of purchase value	19% annually	30 years (max)	15,000	Must receive salary in bank
Banco Internacional de Moçambique, SA (Millennium Bim)	**Home**	Up to 60% of appraisal value	n/a	5 - 20 years	50,000	Must receive salary in bank
Banco Terra, SA	**Vehicle**	Up to 100% of purchase value	23% annually	60 months	250,000	Must receive salary in bank
Banco Comercial e de Investimento (BCI)	**Vehicle**	Up to 75% of evaluation price	26% annually	6 - 36 months	50,000	Must receive salary in bank
African Banking Corporation Mozambique, SA (BancABC)	**Vehicle**	Negotiable	22% annually	60 months	14,000	Must receive salary in bank
African Banking Corporation Mozambique, SA (BancABC)	**Equipment**	Negotiable	22% annually	Negotiable	14,000	Must receive salary in bank
Moza Banco	**Immovable leasing**	500 000 - 95% of acquisiion price	17.5% annually	7 - 30 years	25,000	Must receive salary in bank
Moza Banco	**Movable leasing**	300 000 - 95% of acquisition price	17.5% annually	1.5 - 7 years	25,000	Must receive salary in bank

Annex F: Theoretical framework for voluntary and non-voluntary exclusion

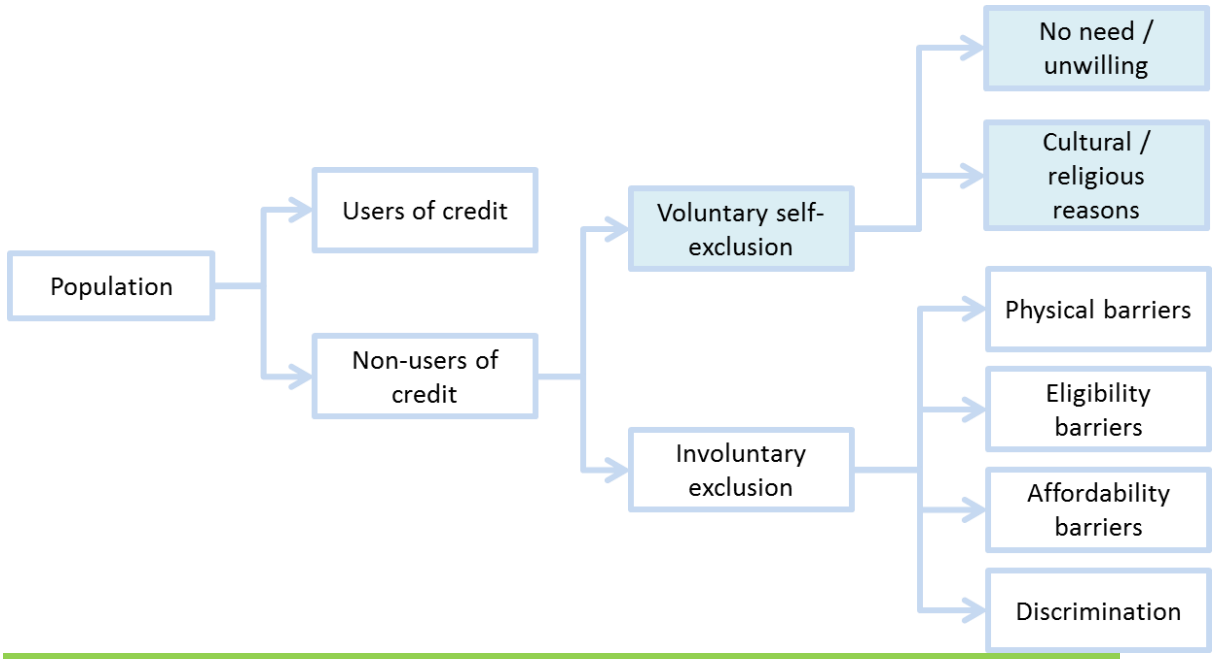

Figure 103: Theoretical framework for segmenting of non-users of credit

Source: adapted from Demirguc-Kunt (2008)

Annex G: ASCA membership across Mozambique

ASCA Operators (networks)	Province	No. of members	% of total members
OPHAVELA	Nampula	57 472	59,4
V. Mundial	Gaza, Zambezia, Tete, Nampula	8 911	9,2
ADEM	Sofala, Manica	6 197	6,4
KSM	Manica	4 476	4,6
KUKULA	Inhambane	4 083	4,2
Save the Children	Nampula	3 433	3,5
GAPI	Gaza, Maputo P, Manica, Sofala, Tete Zambezia, Cabo Delgado, Nampula, Niassa	2 636	2,7
ADEL-Sofala	Sofala	2 271	2,3
CARE	Inhambane	1 736	1,8
KULIMA	Zambezia	1 552	1,6
IDPPE C.D	C. Delgado	965	1,0
ALFALITE	Maputo C, Manica, Sofala, Nampula	929	1,0
FHI	C. Delgado, Sofala	870	0,9
OMS	Maputo P, Zambezia	280	0,3
C. Trento	Sofala	242	0,3
LWF	Gaza	234	0,2
SPP-Manica	Manica	156	0,2
AMA	Cabo Delgado	105	0,1
Kubatsirana	Manica	91	0,1
SUDEMA	Maputo City	75	0,1
MAGARIRO	Manica	73	0,1
Total		**100 558**	**100**

Table 34: ASCA operators per province and membership (as at end of 2009).

Source: Teyssier & Carrilho, 2011

Annex H: Overview of savings and current account features

Service provider	Product name	Electronic Funds Transfer	Statement Request - ATM	Statement Request - Counter	Interest rate	Term of deposit	Minimum opening amount (MZN)
Microproviders							
Banco Ooportunidade de Moçambique	Current acoount	5	Free	Free	0%	n/a	100
	Saving Account	5	Free	Free	2% - 7% Annual	n/a	100
	Term Deposit	n/a	n/a	n/a	9% - 17% Annual	12 Months	3 000
Socremo	Term Deposit	n/a	n/a	n/a	7%-11% Annual	6-12 Months	5 000
	Current acoount	n/a	n/a	n/a	0%	n/a	200
	Special Saving Account	n/a	n/a	n/a	10% Annual	360 Days	200
Banco ProCredt	Flexible Term deposit	n/a	n/a	n/a	n/a	6, 12, 24 Months	1 000
	Current acoount	n/a	n/a	n/a	n/a	n/a	
	Saving Account	n/a	n/a	n/a	4% Annual	n/a	500
	Fixed Term deposit	n/a	n/a	n/a	n/a	7 Days to 24 Months	1 000
Large commercial banks							
Banco Internacional de Moçambique (Millennium BIM)	Current account	n/a	n/a	n/a	0%	n/a	500
	Net Deposit	n/a	n/a	n/a	n/a	30 - 180	15 000
	Term deposit standard	n/a	n/a	n/a	n/a	30 - 365	3 000
	Health saving plan	n/a	n/a	n/a	n/a	1 Year	10 000
	Family saving plan	n/a	n/a	n/a	n/a	1 Year	negotiable
	Count sub 26	n/a	n/a	n/a	n/a	1 Year	1 000
	Monthly income account	n/a	n/a	n/a	n/a	1 Year	30 000
	Extra Cash Deposit	n/a	n/a	n/a	n/a	1 Year	10 000
	Emigrant saving plan	n/a	n/a	n/a	n/a	1 Year	10 000
Banco Terra	Current account	Free	n/a	20	n/a	n/a	n/a
	Account 3+	Free	n/a	20	0-7%	1-12 Months	2 500
	Term Deposit	n/a	n/a	n/a	1.25%-12%	360 Days	10 000
Moza banco	Income savind account	n/a	n/a	n/a	n/a	Variable	2 500
	Term standard Deposit	n/a	n/a	n/a	Variable	1-12 Months	25 000
	Term Moza Net Deposit	n/a	n/a	n/a	8.75% - 10.50% Annual	3-6 Months	500
	Young Saving account 13/18	n/a	n/a	n/a	n/a	Variable	700
	Adult Saving Account	n/a	n/a	n/a	n/a	n/a	2 500
	Term Deposit income already	n/a	n/a	n/a	12% Annual	6 Months	25 000
African Banking Corporation Mozambique SA (BancABC)	Saving account	n/a	n/a	n/a	n/a	n/a	10 000
	Business Bankings Saving Accounts	n/a	n/a	n/a	n/a	n/a	50 000
	SME Fixed Term Deposit	n/a	n/a	n/a	n/a	n/a	50 000
Banco Comercial e de Investimento (BCI)	Direct BCI Deposit	n/a	n/a	n/a	n/a	1-12 Months	2 500
	Direct BCI Monthly Income Deposit	n/a	n/a	n/a	Variable	1 Year	2 500
	Capital account 1100 BCI	n/a	n/a	n/a	Variable	1100 Days	2 500
	New customer BCI Deposit	n/a	n/a	n/a	16.50%	181 Days	2 500
	Future BCI Account	n/a	n/a	n/a	n/a	Until the child completes 21 years hold	500
	Saving account	n/a	n/a	n/a	n/a	n/a	n/a
	Income account	n/a	n/a	n/a	n/a	30 and 90 Days	2 500
	Growing saving account	n/a	n/a	n/a	n/a	90 Days	2 500
	Deposit	n/a	n/a	n/a	n/a	31, 62, 91, 181, 365 Days	2 500
	Monthly Income Deposit	n/a	n/a	n/a	n/a	1 Year	2 500
	Card account	50	n/a	n/a	n/a	n/a	100
Barclays	Current account	55	8	n/a	n/a	n/a	2 000
	Saving account	55	8	n/a	n/a	n/a	1 500
First National Bank (FNB)	FNB Young account	30	10	n/a	n/a	n/a	500
	FNB Money market account	30	10	n/a	4.40% - 5.50% Annual	n/a	2 500 000
Banco Único	Month Único	n/a	20	60	5% - 11% Annual	1 Year	50 000
	Único até 1 ano	n/a	20	60	5% - 11% Annual	Up to 1 Year	50 000
	único até 3 anos	n/a	20	60	5% - 11% Annual	3 Years	100 000
United Bank for Africa, SA (UBA)	Free saving account +	n/a	n/a	n/a	n/a	n/a	1 000
	Small Saving account	n/a	n/a	n/a	n/a	n/a	1 000