USAID - SPEED

CTA

Study about the Cost of Financing in Mozambique And its Impact on Business Development

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DRAFT Report

13 October 2014

VERSÃO DRAFT APENAS PARA EFEITOS DE DISCUSSÃO

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KPMG Auditores e Consultores SA SA ("KPMG") is a Mozambican company.member of the KPMG network, composed of affiliated independent copanies of KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG has been hired by the SPEED / USAID program and CTA (both referred to as Customer) to conduct a study on the Cost of Financing in Mozambique and its impact on Business Development.

The information presented in this document is of a general nature and does not intend to address a specific situation of a particular or corporate entity. Despite the commitment to provide accurate information in real time, we cannot guarantee the accuracy on the date of reception or its sustained accuracy in the future. At no time should an entity make decisions based on the information presented herein without professional advice on the basis of a detailed analysis of the situation in question.

This document has been prepared based on information available to the public, especially studies and accounting reports published by financial institutions. Additional information has been gathered through interviews and consultations with the various stakeholders in the financial sector.

The information in this document is limited to the conclusions specifically prescribed here, and it is based on the completeness and accuracy of the analyzed oresentations, assumptions and documents. In case one encounters any inaccuracy or incompleteness in any of the documents, assumptions or presentations one should immediately communicate this to us, since any inaccuracy or incompleteness might have a material effect on our conclusions.

The list of interviewed entities was jointly developed by KPMG and the Client. The information collected in interviews has not been independently verified and confirmed, except for the numerical information related to financial sector accounts. KPMG relied on the good repute of the entities interviewed and thus considered the information shared by these entities to be materially accurate, correct, complete and straightforward.

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It is assumed that a report is accepted without qualifications whatsoever when it is delivered to the customer without KPMG receiving any comments, suggestions or amendments within a period of seven days upon receipt.

Last but not least, KPMG thanks all those who directly or indirectly contributed to this study, in particular for the time made available for the interviews.

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Maputo, 13 October 2014

Dear Sirs,

In partnership with the Confederation of Business Associations ("CTA") and the SPEED / USAID program, we present this study, which aims at providing a basis for discussion for a better understanding of the financial sector framework in Mozambique, which shows a prevalence of high interest rates, and for the way this phenomenon in turn affects the cost of capital in the economy, particularly for Micro, Small and Medium enterprises ("MSMEs") in Mozambique.

This study does not intend to identify / blame any particular economic operator for the prevalence of an interest rate scenario that is assumed by the general public as high, rather it seeks to create a foundation for creating a national commitment.

It is evident from the results of this study that the perceptions found per category of economic actor (Public Sector / Bank of Mozambique, Commercial Banks and Private Sector / Other Stakeholders) differ, depending on their position in the market. However, it is clear that the improvement of the business environment in Mozambique, requires work on i) Regulation and institutional coordination of guidelines sent to the market by the Bank of Mozambique; ii) Improvement of the level of communication and transparency on the part of the Commercial Banks, and iii) Financial capacity building and the professionalization of management by national businesses.

Only the combination of (i) practical measures taken by each one of the economic agents within the scope of a national strategy and (ii) a commitment between the Bank of Mozambique, the Commercial Banks and the Public and Private Sectors, will lead to a progressive reduction of the cost of money in Mozambique to economically acceptable levels that enhance a more favorable business environment.

Finally, we wish to express our warmest thanks to all financial institutions and other stakeholders who agreed to participate in the survey, as well as all representatives of CTA, the Bank of Mozambique, the Ministry of Finance and other institutional representatives, for their collaboration in the development of the work here presented.

Yours sincerely,

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'000	Thousands
AMB	Association of Mozambican Banks
BaM	Monetary Base
BCI	*Banco Comercial e de Investimentos*
BdM	Bank of Mozambique
BoT	Bank of Tanzania
BPD	*Banco Popular de Desenvolvimento*
BT's	Treasury Bills
BNA	National Bank of Angola
BNI	*Banco Nacional de Investimentos*
BVM	Mozambique Stock Exchange
CAGR	Compound annual growth rate
Cont.	Continuation
CPM	Monetary Policy Committee
CTA	Confederation of Economic Associations of Mozambique
DUAT	Land Use and Benefit Rights
FNB	First National Bank
FPC	Marginal Lending Facility
FPD	Deposit Facility
IC	Credit Institution
INAPEM	National Institute for the Support of Small and Medium Enterprises
INE	National Institute of Statistics
IPEME	Institute for the Promotion of Small and Medium Enterprises
MMI	Interbank Money Market
MPME's	Micro, Small and Medium Enterprises
MZN	Metical
NMC	Banknotes and coins in circulation
OGE	General State Budget
ONG	Non Governmental Organization

OT's	Treasury Bonds
Pp	Percentage Points
PIB	Gross Domestic Product
SACCOS	Savings and Credit Cooperatives
SARB	South African Reserve Bank
SPEED	Support Program for Economic Enterprise Development
USAID	United States Agency for International Development
USD	United Stated Dollares
vs.	Versus

VERSÃO DRAFT APENAS PARA EFEITOS DE DISCUSSÃO

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Methodology of the study:

- **Theoretical and financial anaysis;**
- **Interviews with main actors from the sector;**
- **Benchmarking;**
- **Promotion of public debate.**

Methodology of the study

Our methodology is based on the following aspects:

Pfase 1

Investigation into the financial system and the business environment in Mozambique

- Theoretical analysis of relevant documents about the financial system, the business environment in Mozambique and regulations associated with financial institutions .
- Elaboration of research instruments jointly with SPEED / USAID and CTA. These instruments represent a set of questions addressed to the economic agents and related to the subject in order to obtain information concerning bank financing, the cost of capital and difficulties encountered in accessing loans by the business sector. In addition, sample surveys of key players from the financial sector will be made (semi-structured interviews based on a questions guide).

Phase 2

Description and analysis of financing costs and their impact on enterprise development

- Definition and clarification of the key research sectors facing the challenges related to the country's growth.
- Analysis of the cost of capital in Mozambique: Market Perception and comparison with target countries for benchmarking target.
- Benchmark – quantitative comparison of the costs of financing in Mozambique.

Methodology of the study:

- **Theoretical and financial anaysis;**
- **Interviews with main actors from the sector;**
- **Benchmarking;**
- **Promotion of public debate.**

Methodology of the study

Our methodology is based on the following aspects :

Phase 3

Strategic guidelines to ensure a financial environment favorable to the business sector I

- Discussion (with CTA and SPEED / USAID) and development of potential scenarios in function of: (i) rapid expansion based on resources and the possible impacts on MPMEs; and (ii) the sustainability and development of economic activityies of Mozambican MPMEs.
- Elaboration of a guide of recommendations for the private and the financial sectors, showing the limitations for change on both sides.

Phase 4

Return visit to present the conclusions and recommendations

Internal presentation for SPEED/USAID – CTA of the study's findings;

- Promoting debate with civil society, based on the presentations of the findings in the form of a public session.

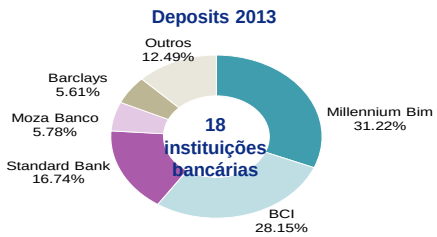
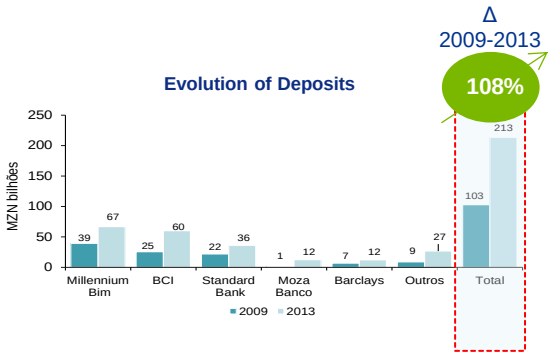
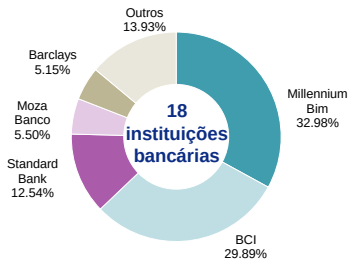
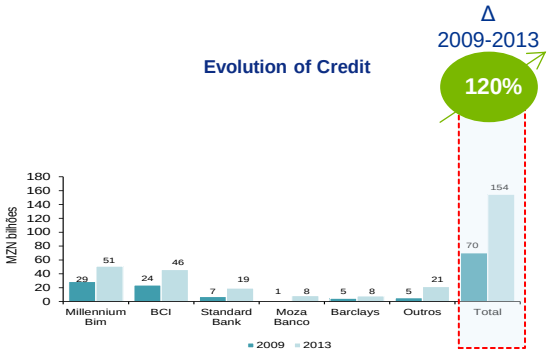
Phase 5

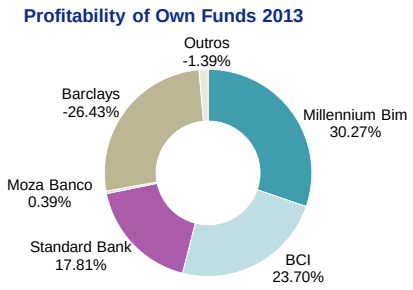
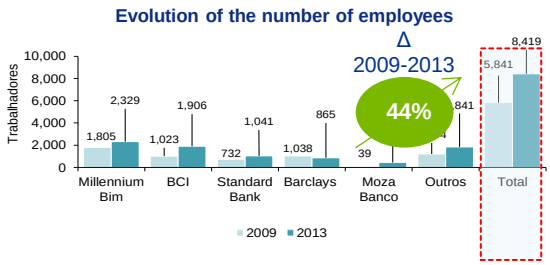
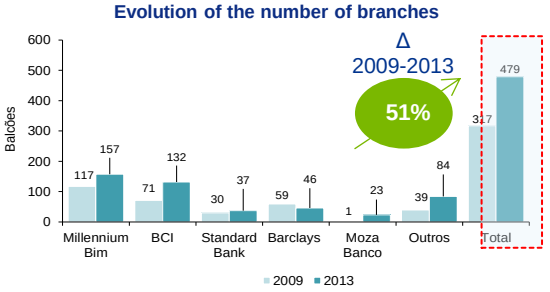
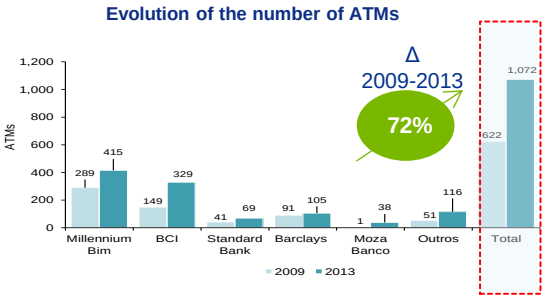
Finalizing the report

- Finalized report based on the comments made by stakeholders in the course of the public debate.

Logo	Name	Origin of shareholder structure
	Millennium BIM - Banco Internacional de Moçambique, SA.	Portugal / Mozambique
	Banco Comercial e de Investimentos, SA.	Portugal / Mozambique
	Standard Bank, SA.	South Africa / China
	Barclays Bank Moçambique, SA.	South Africa / United Kingdom
	Moza Banco, SA.	Moçambique / Portugal
	African Banking Corporation (Moçambique), SA.	Botswana
	Banco Único, SA.	Portugal / South Africa
	FNB Moçambique, SA.	South Africa
	Banco Nacional de Investimento, SA.	Mozambique
	Mauritius Commercial Bank Moçambique, SA.	Mauritius
	Banco Terra, SA.	Portugal / Germany / Netherlands
	Ecobank Mozambique SA	Nigeria
	Banco Mercantil e de Investimentos, SA.	Mozambique
	Socremo Banco de Microfinanças, SA.	South Africa
	United Bank for Africa Moçambique, SA.	Nigeria
Não definido	Banco Mais SA (antigo Banco Tchuma)	Portugal / China
	Banco Oportunidade de Moçambique, SA.	Netherlands / France
	Capital Bank Moçambique SA.	Malawi

Topic	Main aspects
Bank of Mozambique and the banking system	▪ The main functions of the Bank of Mozambique's are to act as: (i) Banker of the State; (ii) Government Adviser in the area of finance; (iii) Issuing Bank; (iv) Manager of the country's external assets; (v) Intermediary in international monetary relations; (vi) Supervisor and controller of monetary, financial and exchange rate policies; and (vii) Supervisor and regulator of financial institutions. ▪ The national banking system has 267 institutions operating in the sector, including commercial banks, micro banks, credit cooperatives, exchange bureaux, savings and loan organizations and microfinance operators. ▪ Commercial banking is characterized by an ownership structure that is predominantly foreign, mostly Portuguese and South African. ▪ Millennium BIM, BCI and Standard Bank jointly own 75% of all assets of the sector, with the remaining 25% of the market consisting of smaller banks. ▪ Credit institutions, along with the Bank of Mozambique, aim at expanding the provision of financial services to the Mozambican population, with the objective of at least 35% of the adult population having physical or electronic access to at least one financial service by 2022 (National Strategy for the Development of the Financial Sector 2013-2022
Bank of Mozambique Guidelines	▪ The monetary policy of the BoM is based on the system of monetary targets and as such the regulatory institution has a set of objectives for which it takes recourse to the instruments and variables needed to achieve them. ▪ In order to achieve the objectives of its monetary policy, the Monetary Policy Committee of the Bank of Mozambique adopted monetary instruments such as the reference rates of the interbank market, reserve requirements, and banking supervision. ▪ The Marginal Lending Facility and the Marginal Deposit Facility are unaltered from 2013 onwards, standing at 8.25% and 1.50% respectively.
Liquidity of the sector	▪ Accessible liquidity levels for bank financing in Mozambique are low. Therefore commercial banks choose to use the amounts of liquidity for investments considered safest, such as government securities, considered locally as "risk-free" or very low risk investment

Topic	Main aspects
Receiving Deposits	  *Source: Accounting Reports of the Commercial Banks 2009, 2013*	▪ Deposits in 2013 totaled approximately MZN 213 billion, recording an increase of 108% compared to 2009. ▪ About half of the deposits in Mozambican commercial banking is owned by Millennium BIM and BCI, the two largest banks of the Mozambican banking sector. ▪ Moza Banco, with only four years of experience in the Mozambican market, was one of the banks with the highest growth rate during the period in question, achieving MZN 12.322 billion in 2013.
Granting of Credit	  *Source: Accounting Reports of the Commercial Banks 2009, 2013*	▪ In 2013 loans granted by the Mozambican commercial Banks totaled MZN 154 billion. ▪ Compared to 2009, loans grew by about MZN 84 billion. ▪ About 86% of funding for the Mozambican economy is granted by five banks, namely Millennium BIM, BCI, Standard Bank, Moza Banco and Barclays. ▪ About 53% of economic funding is directed towards individuals and the trade and construction sectors.

Topic	Main aspects	
Profitability of Own Funds	 *Source: Accounting Reports of the Commercial Banks 2013*	▪ O Millennium Bim também lidera o mercado no que diz respeito à rentabilidade dos fundos próprios. ▪ A Banca tem crescido em termos de crédito concedido o que proporcionou, em 2013, um rácio de transformação de 78.10% contra os 70% registados em 2012.
Number of Employees	 *Source: Accounting Reports of the Commercial Banks 2009, 2013*	▪ O número de trabalhadores cresceu em 44.13% entre 2009 e 2013. ▪ O BCI foi o Banco que mais evoluiu em termos de quadros contratados. ▪ O Barclays e outros Bancos como o Ecobank e o Mauritius Commercial Bank registaram uma queda no número de colaboradores.
Number of Branches	 *Source: Accounting Reports of the Commercial Banks 2009, 2013*	▪ Em 2013, Moçambique possuía 479 balcões de atendimento. ▪ Desde 2009 que Millennium Bim e o BCI lideram o mercado, atingindo no ano de 2013 157 e 132 balcões, respectivamente. ▪ Barclays e o Ecobank apresentaram uma queda no número de balcões.
Number of ATMs	 *Source: Accounting Reports of the Commercial Banks 2009, 2013*	▪ Em 2013, o Millennium Bim, juntamente com os restantes quatro maiores Bancos possuíam 956 ATMs. ▪ Os restantes Bancos representam 10.82% do total de ATMs.

Topic	Main aspects
Receiving of Deposits	■ The collection of deposits is the main vehicle for funding and supply of financial capacity and commercial banking liquidity in Mozambique. ■ About 67% of the deposits in Mozambican commercial banking are owned by Millennium BIM and BCI, the two largest banks of the Mozambican banking sector. ■ Restrictions on granting loans in foreign currency: the amount of foreign currency which is used for time deposits can only be converted into credit for projects destined at exports. ■ Smaller banks have the ability to react quickly to short and medium-term changes due to their costs and size structure. This means that some banks could offer more attractive deposit interest rates enabling a greater uptake of deposits in 2013.
Granting of Credit	■ The financial sector grew 10.40% **[10.40??]** driven by lending to the construction, transport, communications and trade sectors. (PES Balance Sheet 2013 - February 2014). ■ About 86% of funding for the Mozambican economy is concentrated in four banks, to wit Millennium BIM, BCI, Standard Bank and Barclays. ■ About 53% of economic funding is directed towards individuals and the trade and construction sectors. ■ The significant increase in foreign currency deposits from foreign direct investment is not reflected in higher lending capacity of the banks, given that the BoM created a legal limitation on the amount of credit granted in foreign currency.
Structure of Bank Assets	■ Commercial bank assets consist in: – Credit; Applications in Credit Institutions; Financial assets available for sale; Deposits with other Credit Institutions and Financial Investments. ■ Total assets in the banking system grew 18.60% from 2012 to 2013. ■ In 2013, the commercial banking loan portfolio accounted for about half of the asset structure (52.37%), followed by financial assets available for sale (15:59%) and investments in Credit Institutions (12.87%).

Topic	Main aspects
Loan portfolio	■ Banking experienced a growth rate in terms of granted loans which in 2013 provided a transformation ratio of 78.10% as against 70% in 2012. ■ Credit to the economy continued to grow between 2012 and 2013 at a rate of 29% to 154 billion meticais, showing signs of insensitivity to the light increase of the average interest rate recorded in lending in the course of 2013. ■ Associated with the growth of the loan portfolio is an increase in impairment, and therefore the quality of the sector's loan portfolio detiorated during 2013, evolving from 2.76% in 2012 to 2.95% in 2013. ■ During 2013, the loan portfolio grew at a faster pace (29%) than the growth of received deposits (19%).
Main Constraints	■ Commercial banks face the following constraints: – ***Cost of funding***: the sources of liquidity available in the market are limited, resulting in high rates of return on deposits charged by banks to ensure liquidity and the financing of their activities. – ***Liquidity is concentrated in a small group of Institutions***: the greatest liquidity holders in the economy decide and negotiate according to a (not formalized) auction system the interest rates to be considered in remunerating their deposits. – ***Poor Bank Penetration***: despite growth shown in the use of banking services, the majority of the population still has no access to banking. – ***Poor financial literacy***: MPMEs and the public at large show weaknesses in the perception of information provided by the Banks and in the ability to developing tools / plans that minimize the credit risk as perceived by the Banks.

Topic	Main aspects
Main Constraints (cont.)	– ***Collateral:*** as a rule, there are no real guarantees or there are guarantees that turn out to be limited. – ***Weak level of savings***: the Mozambican economy is consumerist in nature and therefore it is an economy with a low propensity for savings. – **The agricultural sector is perceived with great suspicion**: funding for agriculture and agro-businesses is not considered a priority due to the climate risks associated with this activity. – ***Poor competitiveness in this sector***: due to the high market concentration in a small number of commercial banks, these have the power to make strategic decisions with respect to the oscillation of interest rates and the timing of the application of measures **[please check: last part is unclear to me].**

Topic	Main aspects
Cost of Financing	■ The Mozambican entrepreneur (MSMEs) uses his own funds and private loans to make investments, due to the following factors: – High costs of debt service from commercial banks; – Limited access to credit and the venture capital market; – Requirements of guarantees or collateral (non-existent in national businesses); – The sector is perceived as insufficiently competitive, with a very poor service level.
Perceived Risk	■ According to the "Financing Mozambique“ project there are four major risk groups that are taken into account in analyzing and evaluating an investment: (i) Country Risk (including currency risk) - The main reference for analyzing the country risk related to the cost of funds is the country’s monetary policy. This basically mirrors the way the monetary regulator influences the economy through monetary policy instruments, which for this study are the interest rates. (ii) Sector Risk - The sector risk has been perceived as one of the key aspects influencing the cost of financing in Mozambique. Here one considers aspects such as low technology levels and lack of infrastructure, the country’s size, sector policies and legislation, the positioning of projects in the value chain, lack of insurance for certain activities, among other things. (iii) Business Risk - The profile of the applicant company is another risk component with a major influence on the cost of financing. Note that this type of risk analysis is based on aspects such as: (i) legal establishment of the company, (ii) history of the company's relationship with the financial institution and the financial system; (iii) most recent financial reports (unaudited) and professional level of management; and (iv) the profile of the company's leadership and its level of transparency.. (iv) Project Risk - The strength of a project is one of the components that directly determine the cost of financing. This risk is traditionally associated with the ability to develop business plans and robust cash flow maps, an assertive analysis of the market, with the ability to offer guarantees / collateral, the level of sharing in the planned investment, the presentation of a robust implementation capacity (qualified human resources, recognized technologies, clear and effective management model, professional management), among other things.

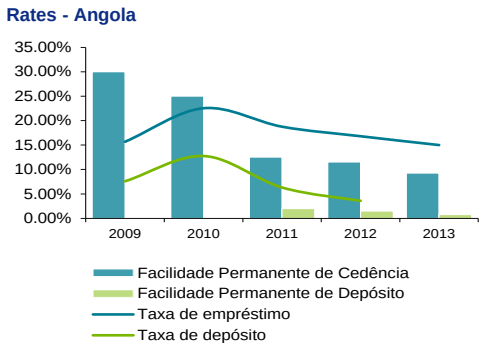
Topic	Main aspects
Financial Literacy	■ Businesses show weaknesses in basic knowledge necessary for the responsible and proper management of financial instruments, hence the need for a financial capacity building strategy. ■ Various institutions have developed initiatives in the form of lectures, seminars, training sessions and the increase and improvement of information sources, to tackle this problem.
Transparency and professionalization of management	■ Traditionally, MSMEs are led by a single person and that person's vision and mission are being shared at the company as company values. This strong dependence on the leader is perceived as a high risk by the banks. ■ The management philosophy of MSMEs is close to that of a "family business" and this, in turn, is characterized by the existence of a fine line between the capital of the company and individual incomes, often resulting in a lack of transparency in transactions that have occurred, and of the necessary separation between business activities and social / personal life.
Alternative financing sources	■ The Mozambican financial market is in a development phase, with the following financing alternatives standing out: – ***Credit lines*** – credit lines and guarantee facilities financed by Cooperation Agencies have encouraged the banks to expand into the MSME and Agriculture sectors. – ***Investment Capital*** - the Mozambican market has four institutions dealing with investment capital, to wit (i) the Stock Exchange; (ii) Catalytic Fund; (iii) GAPI and (iv) BNI. In addition to these formal opportunities, it is believed that there are a number of non-banking Financing Institutions operating informally. – ***Development Banks*** - Mozambican legislation is not yet sufficiently developed to establish specific regulations for this particular branch. However, the BNI has focused on structuring and development projects.

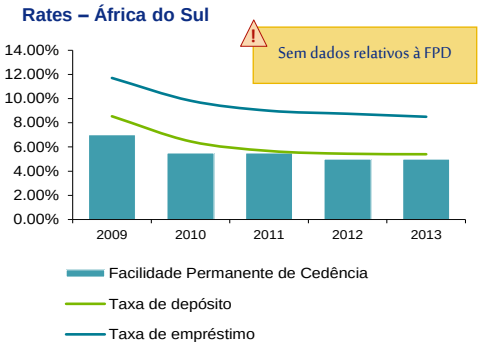
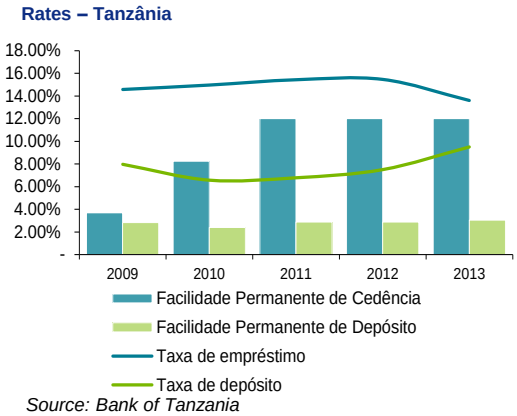
Topic	Main aspects
Alternative financing sources (cont.)	– **Microfinance** – constitutes a relatively more expensive segment of funding because of high operating costs due to MSME credit methodologies. – **Electronic / mobile money** - There is a potential for financial services provision in rural areas based on telephone solutions / services. However, these are not yet seen by banks as a viable way to expand into rural areas.
Main constraints of MPMEs	■ MSMEs face the following constraints: – **MSME Leadership** - the vision, principles and the operation of MSMEs are usually subjected to the "founder", creating a dependency and increasing the risk of failure of the MSME in case the leader distances himself of it. – ***Management Philosophy*** - the management philosophy of MSMEs is akin to "individual / family business", and not that of a company operating in a competitive market. – ***Professional Management*** **-** the MSME management model is not very professional and transparent, does not use the instruments ,and models necessary for proper management, for example the presentation of business plans. – ***Poor financial literacy*** - it appears that MSMEs have a poor understanding of the various existing financial instruments and financing options. – ***Poor capacity for offering collateral*** - the lack of assets in the balance sheet structure is a common feature MSMEs. – ***Low level of capitalization of MSMEs*** - the level of capitalization of MSMEs is low, so much so that they are unable to illustrate the financial autonomy and viability of the business. – ***Professional Financial Management*** - MSMEs show weaknesses when it comes to elaborating and submitting credible financial information. – ***Legal and Institutional Surroundings*** - the country has a complex tax system and does not differentiate between MSMEs and large companies. In addition, the judiciary system is slow in resolving conflicts concerning the implementation of safeguards.

Topic	Main aspects
Main constraints of the agricultural sector	■ The agricultural sector faces certain constaints. Some are specific to this area and others are of a more general nature: – ***Agriculture in Practice*** - the use of rudimentary production systems remains the predominant model. There are no economies of scale. – ***Undeveloped agricultural insurance market*** - the risks of MSMEs operating in the agricultural sector are higher, given the inexistence of insurance in the market. – ***Poor capacity for offering collateral - t***he agricultural sector is not very different from other MSMEs when it comes to offering collateral. More specifically, there is a debate in the agricultural sector about using land or DUATs as collateral. – ***Poor financial literacy*** - this sector has a particularly low level of literacy when it comes to accounting and financial management. – ***Dependence on climatic factors*** - agriculture is still prone to adverse weather conditions (risk of natural disasters). – ***Undeveloped Value Chain*** - the agricultural sector has a value chain that is not fully developed or else concentrated on the farmer himself. – ***Commercial part is underdeveloped*** – the actors in this sector do not focus on marketing but on subsistence. – ***Few banks serving agriculture*** - the funding for agriculture and agro-businesses is not given priority due to the climate risks and the infrastructure associated with these activities, as well as to the inexistence of an insurance system for the sector.

Topic	Main aspects
Guidelines – BoM	■ In order to reduce the cost of financing, the market views some measures as necessary, such as: – Definition of specific regulations for financial institutions with different objectives (Investment Banking, business segment, mass-market, micro-credit, venture capital, investment funds); – Proceed with and coordinatie the regulation of existing liquidity in institutional entities, in order to minimize the institutionalized system of interest rate auctions by large institutions with liquidity in the market (e.g. the INSS and the BoM Pension Fund); – Capacity building of national businesses, in particular MSMEs, so that these are able to i) understand the financial product they are buying; and ii) increase the bargaining power vis-á-vis the banks; – Improvement of the performance of the Judicial System (reduce time for the resolution of conflicts and the execution of guarantees).
Guidelines – Commercial Banks	■ The commercial banks in turn recognize that it is important to focus on: : – Transparency in the definition of the PRIME rate in order to avoid the disparity of interest rates charged / to allow comparability in the market between financial institutions; – The sharing of surplus liquidity in the interbank market. – Coordination with the AMB to minimize the cost of funding when offering pay rates for capturing the deposit auctions of large institutions with liquidity in the market; – Capacity building in the sector with qualified staff in agronomy, for a better understanding of the real risks of the agricultural sector and of the business potential of projects in this sector; – Development of innovative solutions to respond to characteristic feautures of the market, such as for example the lack of collateral and the undercapitalization of MSMEs.

Topic	Main aspects
Guidelines – Businesses	■ The recommendations for the private sector and other stakeholders are: – Update of company accounting so that it correctly and rigorously reflects their actual financial situation and facilitates risk assessments for the granting of credit. – Elaboration of eligibility and transparency criteria to foster Development Banks. – Adoption of the group work practice by MSMEs in order to minimize credit risk and e more easily obtain the various financial products offered by the commercial banks.

Topic	Main aspects
Angola	■ Since 2011, the National Bank of Angola has made a smooth transition to a framework with inflation targets and to that end relies on "de-dollarization" measures and interest rates of government securities to be determined by the market through the submission of bids in primary auctions. The Central Bank and the National Statistics Institute are working together to develop rigorous economic indicators so as to provide authorities more timely with better quality data in order to support decision-making.  *Source: National Bank of Angola* ■ Regarding the loan and deposit rates, the data obtained showed that over the period concerned the reference rates were decreasing at a rapid pace, thanks to the expansionist policy of the National Bank of Angola. ■ The rates of commercial banks, in turn, followed this decline proportionately. ■ With regard to MSME funding some Angolan banks provide loans free of bank fees and against affordable safeguards, such as the Angolan Investment Bank (BAI), the Angolan Bank of Business and Commerce (BANC), the Banco Espírito Santo Angola (BESA) and the Angolan Commercial Bank (BCA). Furthermore, the National Institute of Support to Small and Medium Enterprises was created, which is responsible for implementing the policies and strategies in the field of business training and capacity building for MSMEs. ■ The Angolan authorities have been promoting a series of policies and instruments for the establishment of an enabling environment for growth and development, by creating financial incentives for the agricultural sector.
South Africa	■ In 2000 the South African Reserve Bank adopted a monetary policy with inflation targets. South Africa operates through a floating exchange rate system but when necessary the Central Bank intervenes in the foreign exchange market in order to control the exchange rate and the level of foreign currency reserves.

Topic	Main aspects
South Africa (cont.)	 *Source: South African Reserve Bank* ■ With regard to the reference rates, the rate of the Marginal Lending Facility decreased about 21% from 2009 to 2010 while remaining at the same level the next year. In 2012 it saw a 9% decrease to 5%, which remained unchanged in 2013. ■ Meanwhile lending rates charged by commercial banks show the same decrease. ■ Concerning alternative funding sources for MSMEs, the saving system "Stokvels" is the most used. Micro enterprises can count on 13 banks operating in this sector. On the one hand there are the associations that support and provide training to small and medium enterprises while on the other hand there is an institutional government agency that provides subsidies. ■ The financing of the agricultural sector often takes recourse to some specialized associations and to the Land Bank - the Bank specializing in agriculture.
Tanzania	■ The Bank of Tanzania wishes to reform and modernize the way it conducts monetary policy by replacing the current system of monetary targets (quantity) by a system of interest rate targets - Central Bank rate (price).  *Source: Bank of Tanzania* ■ From 2009 to 2013 the rates charged by commercial banks proportionally followed the movements of the reference rates of the Bank of Tanzania, with the exception of the loan rate, which dropped 12% from 2012 to 2013, although the Marginal Lending Facility rate remained unchanged.

Topic	Main aspects
Tanzania (cont.)	■ This system change will be realized in phases in order to ensure a smooth transition, starting with the strengthening of the financial system so that it becomes more integrated, competitive and flexible with respect to price changes. ■ Some banks in Tanzania developed specific credit products for MSMEs, with favorable conditions such as an increase in the range of acceptable collateral. On the other hand, small business owners can use savings associations and cooperatives, with SACCOS being the oldest. ■ Although Tanzania has the largest number of banks compared to other East African countries, few institutions focus on financing the agricultural sector.

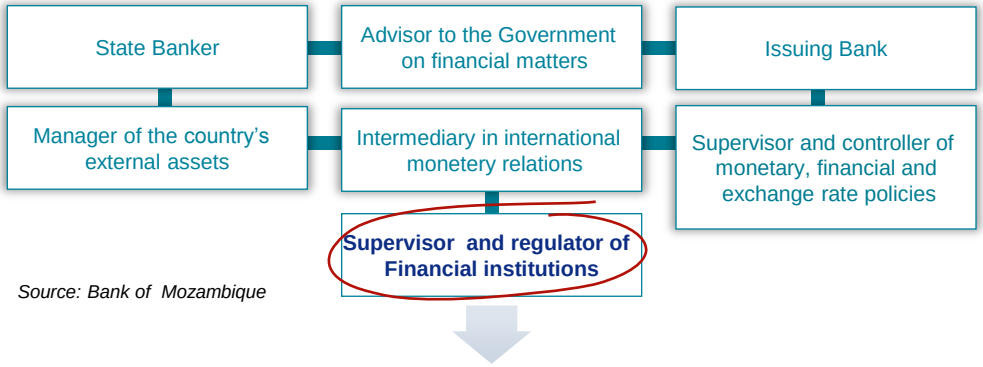
The BoM was founded on May 17, 1975.

The BoM has made efforts in order to continuously updating the legal and regulatory framework applicable to credit institutions.

Credit institutions in Mozambique consist of commercial and investment banks, credit unions and micro banks.

Mozambican Banking System

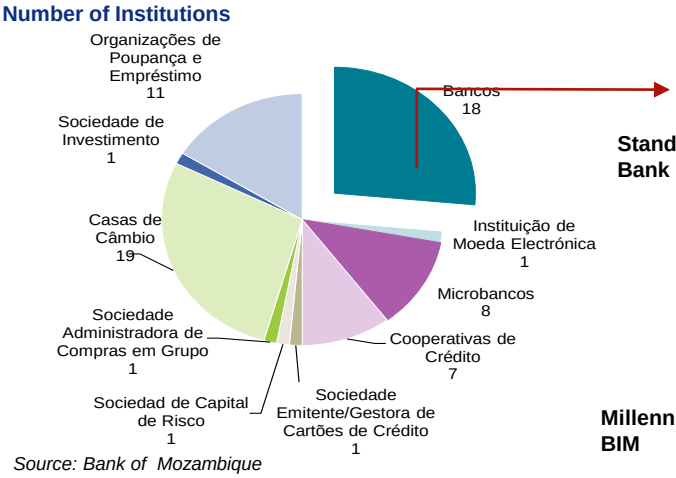
The Bank of Mozambique (BoM) was founded on May 17, 1975, following the Lusaka Accords signed between the Portuguese Government and the Mozambique Liberation Front. Through Law Nr. 1/92 of 3 January, the BoM started to execute the functions of a Central Bank:



Source: Bank of Mozambique

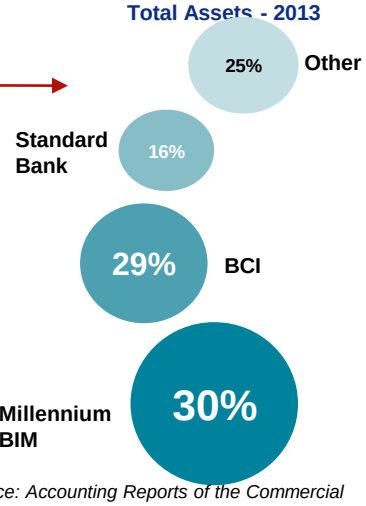
The banking sector in Mozambique has been growing significantly in response to the rapid growth of the country of about 7.5% (Cia World Factbook). Despite this expansion the sector is still in its infancy and faces a number of constraints. At present the Mozambican banking system consists of:

Number of Institutions



Source: Bank of Mozambique

Total Assets - 2013



Source: Accounting Reports of the Commercial Banks, 2013

In addition, the banking system has 199 microfinance market operators, while having 267 institutions in this sector..

Currently, the country has 18 commercial banks, including Millennium BIM, BCI and Standard Bank, which together hold 75% of the assets in the market.

The entry of private banks significantly reduced the proportion of bank assets owned by the State. However, the Government of Mozambique and other public institutions still hold a 26% stake in Millennium BIM - the largest Bank of the system. In December 2012, the National Investment Bank (NIB) also became State property.

Credit institutions aim at broadening the provision of financial services to the majority of the population, a process globally known as financial inclusion.

The set of products and services offered to consumers continues to expand, and the latest innovation is connected to the Mobile Banking and electronic money service (Mkesh and Mpesa).

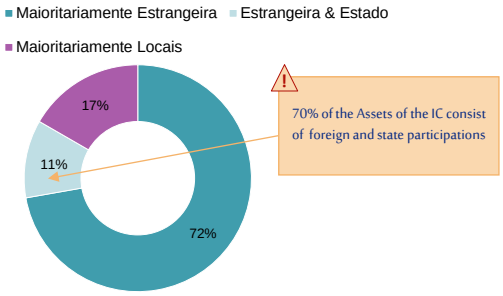
Mozambican Banking System (cont.)

Mozambique has the following commercial banks:

Bancos Comerciais a operar em Moçambique	
Banco Internacional de Mocambique - Millennium BIM, SA	The Mauritius Commcerial Bank (Moçambique), SA
Banco Comercial e de Investimentos - BCI, SA	Banco Terra, SA
Standard Bank, SA	Capital Bank
Barclays Bank Mocambique, SA	Banco Mercantil e de Investimentos, SA
Moza Banco, SA	Socremo - Banco de Microfinanças, SA
BancABC Mocambique, SA	United Bank of Africa, SA
Banco Único, SA	Ecobank
FNB Mocambique, SA	Banco Oportunidade de Moçambique, SA
Banco Nacional de Investimento - BNI, SA	Banco Tchuma, SARL

Source: Bank of Mozambique

Shareholder structure of the banks

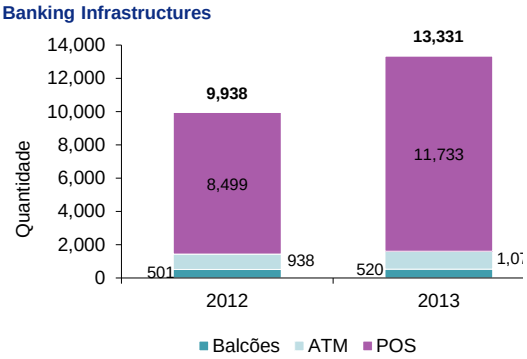


Source: Accounting Reports of the Commercial Banks, 2013

National business have a minority share in the shareholder structure of the banking system. Banks are mostly of foreign capital so that they have the capacity to deliver know-how and skills of new financial products and services. This group, composed mainly of Portuguese and South African shareholders, holds a share of over 50% of the shareholding structure of the banking system.

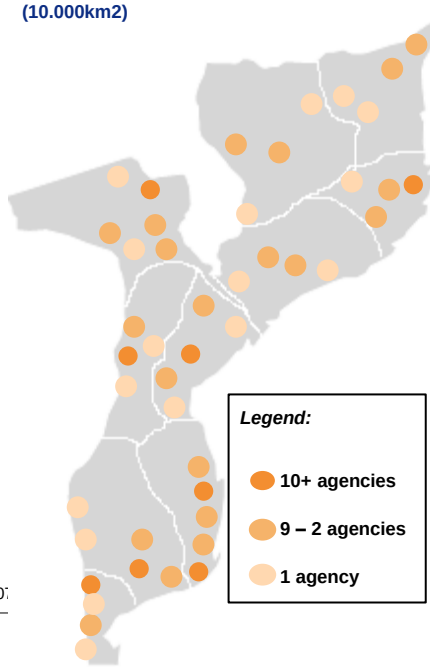
In the proposed strategy for the development of the financial sector 2013-2022, the government plans to introduce a set of measures that enable it to achieve the following goal at the end of that period : at least 35% of the adult working population in Mozambique has physical or electronic access to at least one financial service provided by a regulated financial institution. In addition, the banks aim at increasing penetration in rural areas.

Banking Infrastructures



Source: BoM Annual Report 2012; Magazine Exame, July 2014

Geographical access: number of agencies (10.000km2)



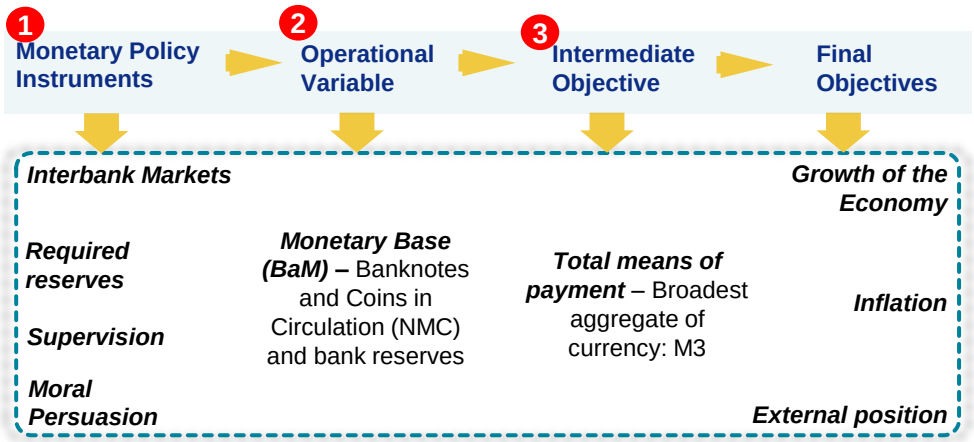
The alternatives to the current system of monetary targets:

exchange rate system;
inflation target system;
interest rate targets system.

Available data on monetary aggregates and inflation behavior show that in the case of the Mozambican economy the system of monetary targets seems the most viable option.

Operational framework of the monetary policy

The BoM monetary policy is based on the monetary target system described below:

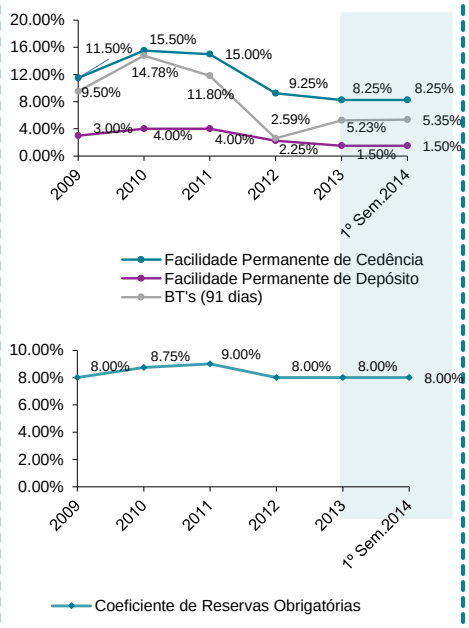


Source: Bank of Mozambique

The intermediate objective has variables that affect the final objectives of monetary policy. For Mozambique, this variable are the total means of payment. Although the Central Bank cannot influence it directly, it seeks to do so through the management of monetary policy instruments to monitor the operational targets. The operational variable must be influenced directly by the Central Bank in the short term and should have a predictable relationship with the intermediate objective (Medium and Long Term Strategy of Monetary Policy, BoM).

1 Monetary Policy Instruments

Central Bank Rates



Source: BoM Annual Report , 2009, 2010, 2011, 2012

1

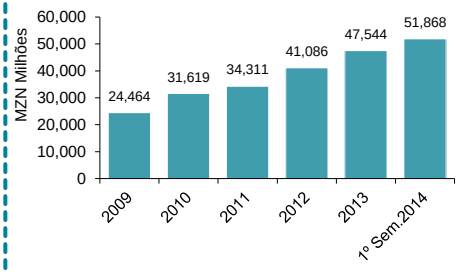
- The BoM has maintained its reference rate (FPC) unchanged at the current historic low of 8.25% since October 2013. BT interest rates remained stable in 2014, closing July at the level of 5.35% for 91 days.
- The Required Reserves coefficient followed the same route, in 2012 it recorded a 1% reduction and remains unchanged to the present day.
- Supervision as a tool of monetary policy comes down to the supervision and monitoring of compliance with prudential standards.
- Moral Persuasion is to bring commercial banks together and show good conduct by the BoM, such as not collecting fees for certain services.

The Monetary Policy Committee (MPC) of the Central Bank has intervened in the interbank markets in order to ensure compliance with the BaM goal for July 2014, set at MZN 51. 868 billion.

Operational framework of the monetary policy (cont.)

2 Operational Variable

Monetary Base

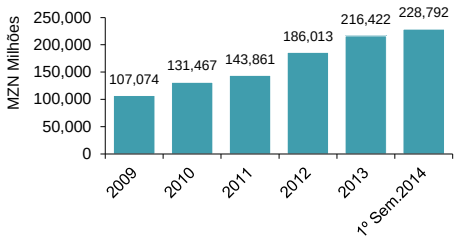


Source: BoM Annual Report, 2009,2010,2011,2012 Monthly Economic Bulletin, December 2009,2010,2011,2012,2013 and July 2014

- The increase that has been registered in the monetary base is due to the expansion of NMC. This in turn changed due to increased marketing of agricultural products in the center and north of the country and to the increase in pensions and other government expenditure in cash.

3 Intermediate Objective

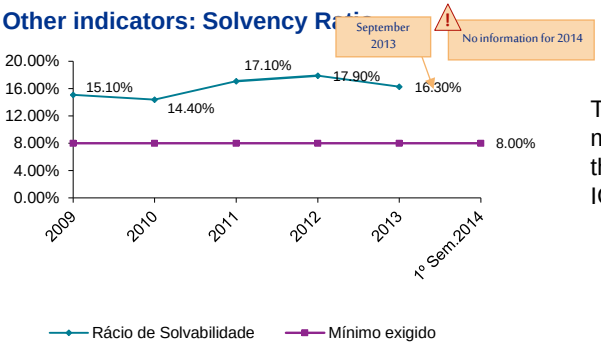
Monetary Aggregate – M3



Source: BoM Annual Report, 2009,2010,2011,2012 Monthly Economic Bulletin, December 2009,2010,2011,2012,2013 and July 2014

- Among the main factors of monetary expansion stands out granted credit in meticais to the private sector and government transactions. These transactions were partially cushioned by payments for goods and services abroad, partly with recourse to debt purchased by credit institutions trom the BoM

Other indicators: Solvency Ratio



Source: BoM Annual Report , 2009,2010,2011,2012

The solvency ratio is considered a monetary policy tool and is part of the BoM supervision process on IC.

For the suitability of the solvency ratio and maintenance for regulatory purposes, the BoM requires each bank to maintain a solvency ratio of not less than 8% (Notice 03 / GBM / 2012). In 2012, the average was 17.9% against 17.1% in 2011. This increase was due to the more than proportional increase of total own funds in relation to weighted assets, related to the capital increase carried out by some credit institutions.

Liquidity levels available to financing in Mozambique are very low due to the Banks' choice to use liquidity in safer investments.

This choice is associated with the high risk rates attributed to small scale investments (MSMEs).

Liquidity in the sector

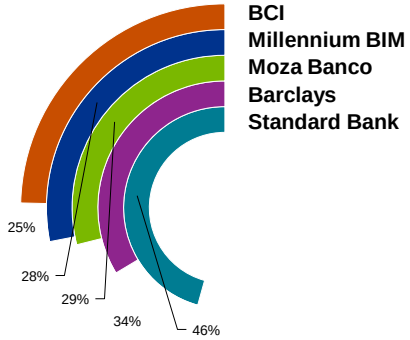
The recent change in rates policy by the BoM did not have a significant impact on the change in interest rates of commercial banks, which is due to the fact that in Mozambique the operational variable of monetary policy is the monetary base and not benchmark interest rates (Massarongo, Fernanda, *Desafios para Moçambique 2013, Porque é que os Bancos comerciais não respondem à redução das taxas de referência do Banco de Moçambique*), as opposed to more advanced economies. Thus the institution influences the liquidity of the sector through monetary policies affecting the interbank market. Interbank transactions are used to manage liquidity excess or deficit. The BoM influences liquidity by changing the FPC, the rate of reserve requirements, or through the purchase and sale of securities and currency on the interbank market.

Sector Bancário 2013 (MZN '000)

	Millennium BIM	BCI	Standard Bank	Moza Banco	Barclays
Activo Circulante	**57,608**	**54,930**	**23,933**	**9,694**	**10,545**
Caixa e disponibilidades	7,029	8,557	3,518	1,078	1,685
Disponibilidades em outras ICs	2,658	1,110	1,521	367	908
Crédito a clientes	47,921	45,263	18,894	8,249	7,951
Passivo Circulante	**68,070**	**64,403**	**34,931**	**12,322**	**23,948**
Recursos de outras ICs	1,473	4,355	154	720	11,974
Recursos de clientes	66,597	60,048	34,777	11,602	11,974

Source: Accounting Reports of the Commercial Banks, 2013

Percentagem de depósitos não cedidos a clientes



Source: Accounting Relports of the Commercial Banks, 2013

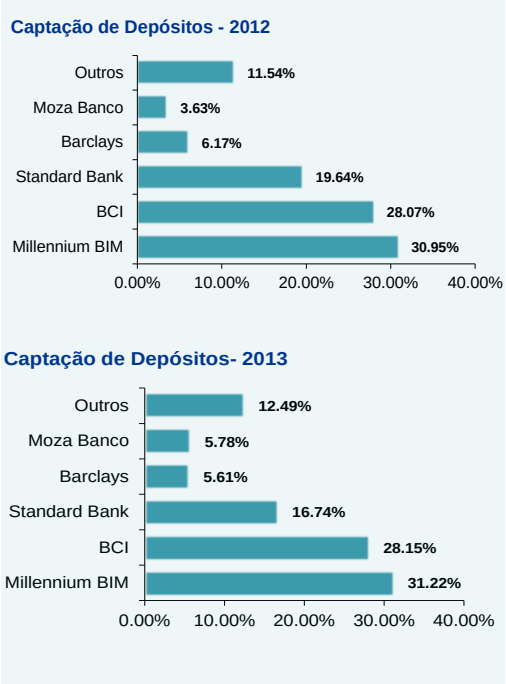
The percentage of deposits of the five largest banks not transferred to private parties is on average 32%, with the third largest Bank (Standard Bank) standing out with 46% and the largest bank (BIM) with 28%. At present required reserve coefficient is set at 8%, that is, on average the banks use 24% of their deposits for other applications, such as treasury bills and bonds.

Because of the risk associated with the Mozambican market, credit institutions choose to use liquidity levels in safer investments such as applications in the BoM. Given that liquidity available for MSMEs is limited, the cost of obtaining credit is high because demand is higher than supply.

About 2/3 of the deposits in Mozambique's commercial banking is owned by Millennium BIM and BCI.

Collection of Deposits

Taking deposits is an important means of financing and supplying financial capacity and liquidity. Recently, Mozambican economy is growing at 7.5%, driven by the increase of production and investment in mineral resources exploration.

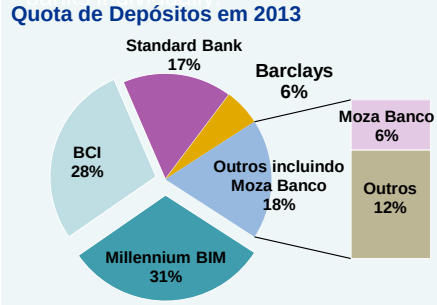


Source: Accounting Reports of the Commercial Banks, 2013

Deposits 2012 - 2013

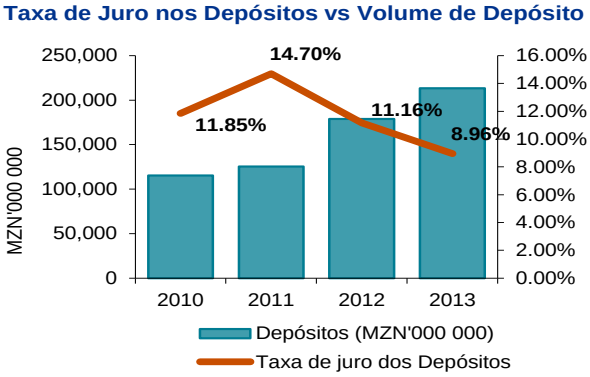
Millennium BIM and BCI absorb about 2/3 of the deposits market.

The remaining banks, including Moza Banco, jointly have less deposits than the two biggest banks each. The group of other banks including Moza Banco is below the volume of deposits obtained by the two largest banks individually.



Smaller banks are able to react more quickly to short and medium-term changes due to their cost and dimension structure. This means that some banks could offer more attractive deposit interest rates, which allowed for a larger deposit-taking in 2013.

Over a four-year period the average deposit rates have been very attractive, standing at 14.7% in 2011. In 2012 the average interest rate fell to 11.16%. Between 2011 and 2012 the volume of raised deposits increased from MZN 125 billion to approximately MZN 179 billion. The volume of registered deposits grew in 2013, from 19,3% despite the average interest rates on deposits being reduced to 8.96%.



Source: *Magazine Exame July 2014*

The financial sector recorded a 10.4% increase. About 86% of the funding to the Mozambican economy is granted by five financial institutions.

Loans to the economy increased 68% from 2012 to 2013.

In 2013 funding surpassed USD 5 billion.

Individuals and trade continue to be the sectors raising most loans.

About 53% of funding to the economy are directed towars individuals and the trade and construction sectors.

Granting of credit

The financial sector grew 10.4% in 2013, showing a robust and solid growth over the years. Contributing to this growth has been the increase in loans to construction, transport, communications and trade. (PES Balance Sheet 20213 - February 2014).

Funding provided by Mozambican banks increased 68% in 2013. Loans to the economy totaled more than MZN 150 billion in 2013 (Magazine Exame, May 2013 and July 2014).

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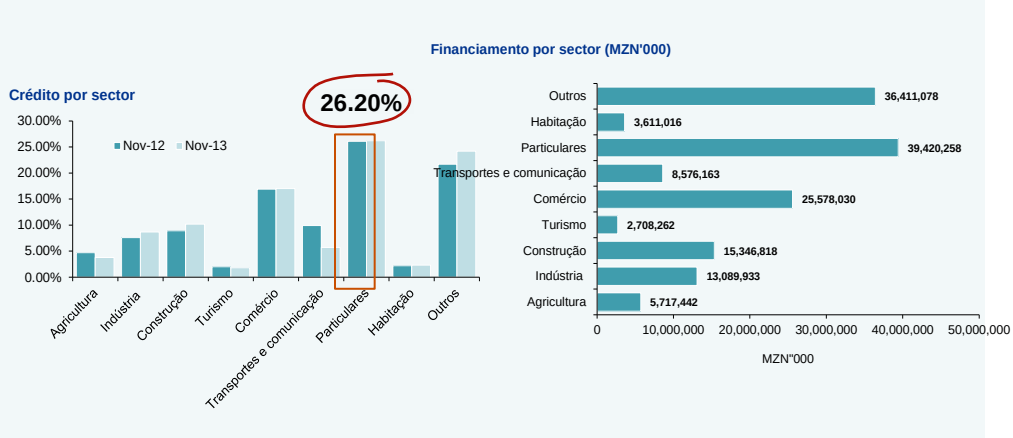
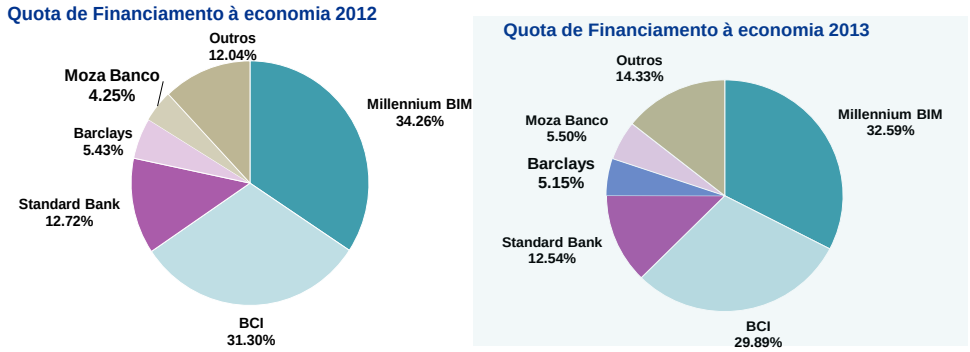


Source: *PES Balance Sheet 2013*

- The proportion of lending to agriculture diminished by 0.9pp to 3.8%.
- Loans to trade, individuals and construction represented 53.4% of the funding to the economy in 2013.
- Financing of the construction sector driven by public works and the real estate market recorded significant growth.



Source: Accounting Reports of the Commercial Banks, 2013

Commercial banks have raised significant foreign currency deposits, accounted for by an increase in Foreign Direct Investment. However, these deposits do not always mean larger lending capacity, given that the Central Bank imposed a legal limitation on the amount of loans granted in foreign currency. Thus, banks with large foreign currency deposits may not realize a profit on all deposits, resulting in financial costs.

Total assets in the banking system increased 18.6% from 2012 to 2013.

The market share of Millennium BIM and BCI grew 0.5pp and 0.4pp respectively in 2013.

Moza Banco recorded a 70.6% growth in assets.

The group of 13 smaller banks recorded a 22.7% expandsion in assets in 2013.

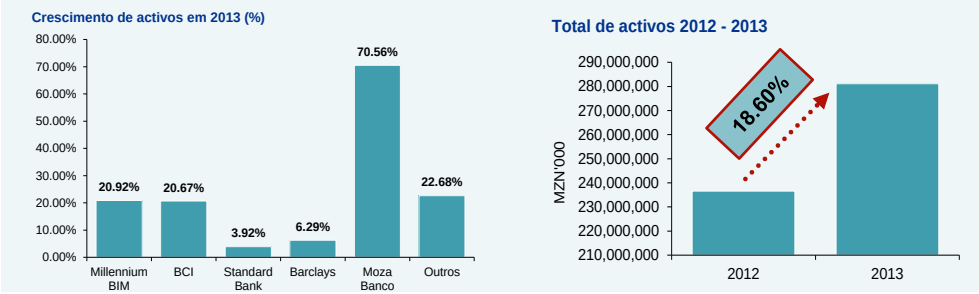
The main source of revenue of the national Banks is their loan portfolio.

The contribution of loans in the banking asset structure increased 3.2pp in 2013.

In 2013 loans accounted for about 52.37% of assets.

Assets

Bank assets overall recorded an increase in the order of 18.6% in 2013 compared to the year 2012. Moza Banco stood out with an increase of 70.6% in its assets portfolio.



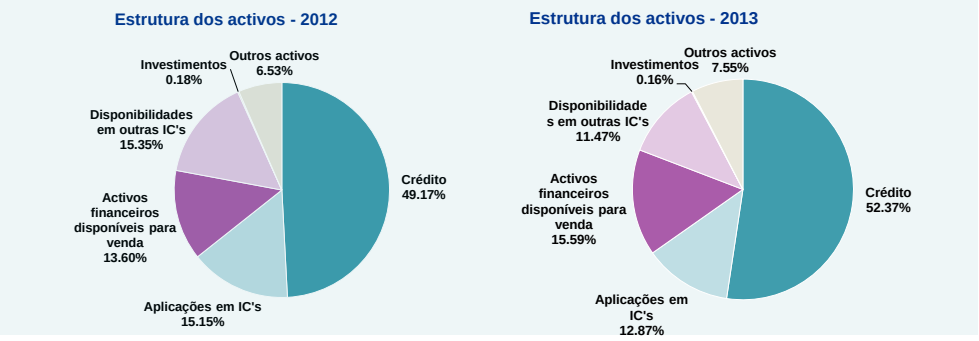
Source: Accounting Reports of the Commercial Banks, 2013

Of the four largest banks in Mozambique, Millennium BIM and BCI expanded their share of assets 0.5pp and 0.4pp respectively. Standard Bank reduced its share of assets around 2.3pp to 15.7% in 2013. Barclays was down 0.7pp in comparison with 2012, going from 17.9% to 10.06% in 2013.

Quota de activos (%)

Instituição Financeira	2012	2013	Variação anual
Millennium BIM	29.86%	30.38%	0.52%
BCI	28.78%	29.22%	0.44%
Standard Bank	17.92%	15.67%	-2.25%
Barclays	6.83%	6.11%	-0.72%
Moza Banco	3.67%	5.27%	1.60%
Outros	12.93%	13.34%	0.42%
Total	**100%**	**100%**	

Source: Accounting Reports of the Commercial Banks, 2013



Source: Accounting Reports of the Commercial Banks, 2013

Loans are the main source of revenue in the asset structure of commercial banks in Mozambique, representing approximately 52% of assets. The importance of loans in the assets portfolio is most evident from the expansion of this component from 49.17% in 2012 to 52.37% in 2013. The proportion of assets relating to financial applications in other ICs and financial resources in other ICs reduced 2.28pp and 3.88pp respectively, representing approximately 12.87% and 11.47% in 2013.

In terms of credit granted banks have grown, in 2013 the transformation ratio was 78.1% as against 70% in 2012.

Bad loans grew but remained less than 2% of total loans.

Profitability

Concerning the profitability of banking assets, the sector continues to be very attractive, dynamic and with potential for continued growth.

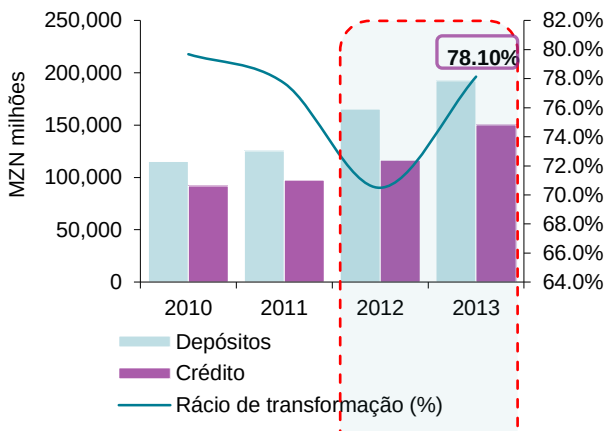
In 2010 the transformation ratio peaked at 80% and numbered 11.85% and 21:25% in interest rates on deposits and loans, respectively. In 2011, with the rise in interest rates on deposits and loans, there was a higher volume of deposits (14.7%). Meanwhile loans registered a negligible growth due primarily to the cost of financing, which hovered around a rate of 25.25% on average for credit. In this period the transformation ratio stood at 78%. (Magazine Exame - July 2014)

Passive and active interest rates saw a decline in 2012, however, the transformation ratio, stood at 70%.

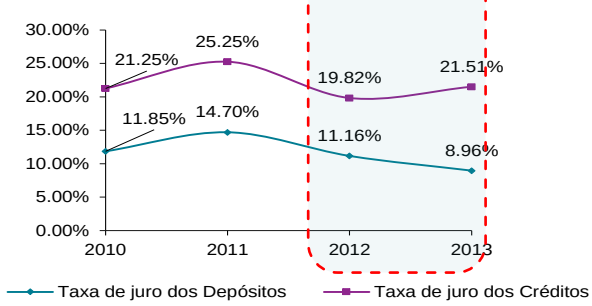
The scenario in 2013 is very encouraging for Mozambican commercial banking. The transformation ratio reached 78%.

Para cada Metical depositado 0.78 Meticais são concedidos em forma de crédito.

Rácio de Transformação



Taxa de juro dos depósitos vs taxa de juro do crédito



Even with the downward trend in interest rates for deposits, in recent years there has been a continuous increase in the volume of deposits, surpassing MZN 192 billion in 2013.

On the other hand, loans granted to the economy continued to increase, showing signs of insensitivity to the rising interest rate between 2012 and 2013. (Magazine Exame, July 2014)

To the extent that financing of the economy grew (2012 - 2013), the risk of impairment also recorded an increase. Although not at the same rate as the growth of credit, banks on average recorded a growth of around 2% for bad loans. (Magazine Exame, July 2014)

Source : Magazine *Exame July 2014*

It is estimated that up to 2013 only 2 million Mozambicans had access to banking and / or bank account services. (Magazine Exame, July 2014)

Liquidity concentration causes increase in funding costs.

Financial education is a key factor for the preparation of investment projects and for negotiating with banks.

Main Constraints

Commercial banks in Mozambique face constraints which, by their nature, hamper business. Aspects related to monetary policy, Mozambican business culture and the conditions of the available infrastructure in the country. The main constraints in the banking sector are:

Main Constraints

1 Cost of funding

The cost of funding is a constraint for banks because liquidity sources (in Meticais) available in the market are reduced, which means that the banks take recourse to high deposit rates in order to ensure liquidity. Thus, the cost of end-customer credit is very high..

2 Liquidity concentrated in a group of players

The fact that liquidity is concentrated in a group puts pressure on banks that need to raise deposits in national currency. Liquidity holders have much power to decide and negotiate the interest rates to be considered in the remuneration of loans.

3 Limited use of banking services

Mozambique is a large country and as such requires a greater effort in the expansion of banking services in order to:

(a) Reach a larger part of the population;

(b) Take a larger deposit volume;

(c) Increase liquidity in the economy.

4 Poor financial literacy

Access to credit for MSMEs and the public at large is linked to financial information and the ability to perceive this information. MSMEs have weaknesses when it comes to the ability to elaborate financial information, business plans and negotiating capacity in this regardd. Thus, the banks perceive risk to be high, which causes a lower propensity to grant credit.

Little savings in the Mozambican economy, which is essentially consumerist.

Lack of competitive incentives in the financial sector

5 Collateral

Collateral represents guarantees that may facilitate access to credit by customers, however, this is limited. Common examples are the refusal to accept Duats – Land Use and Benefit Rights - and operating licenses as guarantees.

6 Poor savings level

The Mozambican economy is consumerist by nature, so it is an economy with a low propensity to save. The income level of families and their cost structure influence the level of savings and therefore the volume of deposits

7 Few banks focusing on agriculture

Funding for agriculture and agro-businesses are not given priority given the risks associated with these activities, such as: natural disasters, pests, poor agricultural infrastructure and little social support to the activity.

8 Poor competitivity in the sector

Due to the high concentration of assets in just five banks, these have the power to decide what rates to apply and at what time. The smaller banks do not have much room to maneuver and end up following the five largest banks.

9 Limitations on granting loans in foreign currency

One constraint is that a significant amount of foreign currency deposits are captured in the Mozambican banking market, which can only be converted into credit for projects geared towards exports. This limitation is a cost to the banks that hold deposits that are not transformed into credit.

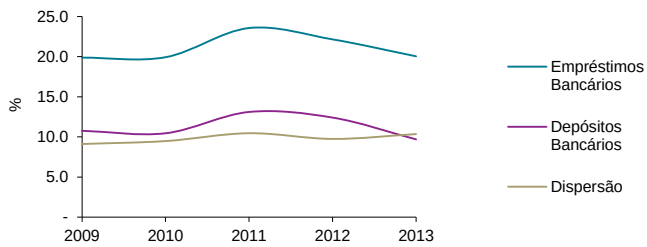
The cost of financing in Mozambique is a strong barrier to the development of business projects because lending is perceived as high risk by the banks. The factors used to calculate the risk associated with lending are linked to the economic situation inherited by applicants in a "new" country still undergoing various structural reforms.

Cost of financing

The Mozambican entrepreneur preferably does his investment using own equity and private loans due to the following factors :

- High costs of interest;
- Limited access to credit and the venture capital market;
- Requirements of guarantees or collateral;
- Insufficient quantity and quality of financial services and their concentration in the capital.

Taxas de Juro



Source: *KPMG Survey*, *PES Balance Sheet 2013*

Taxas de Juro	2009	2010	2011	2012	2013
Empréstimos Bancários	19.88	19.93	23.57	22.15	20.04
Depósitos Bancários	10.76	10.45	13.11	12.41	9.69
Dispersão	9.12	9.48	10.46	9.75	10.35
FPC do BdM	11.50	15.50	15.00	9.50	8.25

Source: *KPMG Survey*, *PES Balance Sheet 2013*

The credit interest rate after reaching a peak in 2011 (23.6%), has been decreasing and stood at 20% in 2013, representing an average of 10.21% over the last four years. Note that there is a substantially high dispersion between the interest rates of loans and deposits, equivalent to an average of 9.8%.

The **facilidade de permanência??** of the BoM in the past four years has an average of 11.95%, showing a steep increase from 2009 to 2010 (4%) and a similar decrease from 2011 to 2012 (5%). Note that these variations appear to have little impact on bank interest rates. This is due to the fact that the factors associated with the risk of lending are not associated with the BoM's FPC. A USAID study on Financial Sector Constraints for Private Sector Development in Mozambique based on interviews with banks concluded that the risks involved in lending can be summarized in four criteria:

Capacity and Experience

The legacy of a poor quality system leaves applicants with weak management skills.

Feasibility of the Activity

Many applicants are unable to assess a project's viability due to lack of preparation.

Financial Information

The lack of organized accounting often reflects a lack of formal qualifications.

Contribution of Capital

Few entrepreneurs in Mozambique had the opportunity to accumulate capital.

There are four main risk groups taken into account in the analysis and evaluation of a project. These include: (i) the Country risk; (ii) the Sector Risk; (iii) the Company risk; and (iv) the Project Risk.

The main reference for the country risk analysis in terms of financing costs is the country's monetary policy. This basically mirrors how the monetary regulator influences the economy through monetary policy instruments, which for this study are the key interest rates.

Aspects such as a mature market, industry development trends, the level of competition and the profile of key players and openness to innovation define the attractiveness of a sector, and hence the sector risks.

Perceived risk

According to the "Financing Mozambique" project there are four main risk groups taken into account in the analysis and evaluation of a project. These include: (i) the Country risk; (ii) the Sector Risk; (iii) the Company risk; and (iv) the Project Risk..

Country Risk

The main reference for the country risk analysis in terms of financing costs is the country's monetary policy. This basically mirrors how the monetary regulator influences the economy through monetary policy instruments, which for this study are the interest rates. Note that these are perceived to be the basis of the cost of financing. Another aspect which is reflected in monetary policy is the economic and political stability.

The regulator has signalled confidence in the system in recent years by reducing key interest rates (see subsection *Guidelines of the Central Bank* for more details). However, it has been observed that the transmission mechanism of this signal has not had the expected impact on the cost of financing. As such, one has the impression that their weight in the definition of financing costs (albeit being the starting point) is not as important as may be thought.

It is noticed that there are additional factors contributing to this phenomenon, namely: (i) a low level of competition in the financial sector; (ii) the influence of return rates on pension funds; (iii) the level of recurrence to MMI; and (iv) the need for better regulation of the sector, distinguishing types of financial institutions (for example those focusing on the development of commercial companies).

Sector Risk

Sector risk has been perceived as one of the key aspects influencing the cost of financing in Mozambique. Here one takes into account issues such as technology and infrastructure, geography, sector policies and legislation, the value chain, among other things.

The profile of the applicant company is another risk component that greatly influences the cost of financing. Note that the basis for this type of risk analysis includes aspects such as: (i) legal establishment, (ii) history of the company's relationship with the financial institution and the financial system; (iii) most recent financial reports (unaudited); and (iv) identification of the company's leadership.

The Project risk is associated with the ability to develop business plans and robust cash flows maps, the assertive analysis of the market, the ability to present guarantees / collateral, the participation level in the planned investment, the presentation of a robust implementation capacity, among other things.

Sector Risk (cont.)

Aspects such as a mature market, industry development trends, the level of competition and the profile of key stakeholders and openness to innovation are aspects that define how attractive a sector is. The more difficulties and challenges the sector faces, the more likely its risk is high and therefore the greater the influence of this component on the cost of financing.

A critical example is the high perceived risk for the agricultural sector, given the underdeveloped conditions under which it operates. This sector is seen as a high risk area (see the subsection *Main Constraints of the agricultural sector* for a more detailed analysis), and as such the costs of financing of this the sector have been high. A. Massarango (2013) also notes that the transport, trade and industry sectors and "other sectors" (which aggregates credit from various categories to households for consumption) have received more credit than the agricuiltural sector.

Company Risk

The profile of the applicant company is another risk component that greatly influences the cost of financing. Note that the basis for this type of risk analysis includes aspects such as: (i) legally established company, (ii) history of the company's relationship with the financial institution and the financial system; (iii) the most recent financial reports (unaudited); and (iv) the identification of the company's leadership.

The profile of national businesses has proven to be weak and facing various challenges (see the subsection *Main Constraints of MSMEs* for a more detailed analysis). These challenges illustrate a considerable risk for financing, and as such have pushed up the cost of financing.

Project Risk

The strength of a project is one component that directly determines the cost of financing. This risk is traditionally associated with the ability to develop business plans and robust cash flow maps, assertively analyze the market and present guarantees / collateral, the participation level in the planned investment, the presentation of a robust implementation capacity (qualified human resources, recognized technologies, clear management model and effective, professional management), among other things.

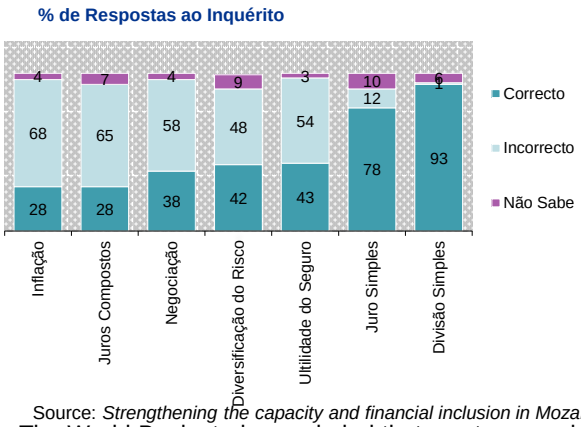
The risk level of a project is greater the less robust it is. As such this risk component is of paramount importance given that it is the subject of financing.

The level of financial literacy in Mozambique is strong in day-to-day management but weak inconcepts relevant to long-term financial management. Both users and non-users of the financial system have weaknesses in basic knowledge for the well-informed and proper management of financial instruments, hence the need for the implementation of a training strategy and for the financial sustainability of savings.

Financial Literacy on the National market

The MSMEs have various difficulties in having access to credit due to ignorance concerning existing opportunities, that is, the level of financial literacy of micro, small and medium enterprises turns out to be one of the main constraints due to limited access to bank financing.

This difficulty has been tackled by initiatives from various institutions in the form of lectures, seminars, training sessions and the increase and improvement of information sources.



Source: *Strengthening the capacity and financial inclusion in Mozambique, World Bank*

In August 2014 the World Bank, in collaboration with the BoM, launched a study on financial capacity and financial inclusion in Mozambique and conducted questionnaires about financial capacity.

The World Bank study concluded that most respondents can perform simple divisions, and make the simple interest rate calculations but they have gaps in financial knowledge necessary to make decisions related to loans and savings. The most notable gaps were lack of knowledge about inflation (72%) and compound interest (72%). In comparison with similar surveys in other countries, it was noted that the percentage of respondents with knowledge on inflation in Mozambique is substantially lower.

Comparação internacional sobre conceitos financeiros

Medido em percentagem de respostas correctas ao questionário

País	Ano	Inflação	Juro Simples	Juro Composto	Divisão Simples
Moçambique	*2013*	28.00%	78.00%	28.00%	93.00%
Mongólia	*2012*	39.00%	69.00%	58.00%	97.00%
África do Sul	*2010*	49.00%	44.00%	21.00%	79.00%
México	*2012*	55.00%	30.00%	31.00%	80.00%
Malásia	*2010*	62.00%	54.00%	30.00%	93.00%
Peru	*2010*	63.00%	40.00%	14.00%	90.00%
Polónia	*2010*	77.00%	60.00%	27.00%	91.00%

Source: *Strengthening the capacity and financial inclusion in Mozambique, World Bank*

The World Bank study concludes that Mozambican respondents who do not participate in financial markets, although they are less aware of the services offered by financial institutions, have a knowledgec omparable to respondents who actively use financial products. On this basis it suggests that financially excluded as well as included Mozambicans would merit a financial training policy, because there is a high number of financially active respondents who do not have the basic knowledge and skills needed to make sound financial decisions.

The main weaknesses of MSMEs management are the following:

- **No business plans;**
- **No coherent presentation of accounts (for the tax authority);**
- **No financial audit of financial statements;**
- **Omission of cash flow maps**

Transparency and professional management

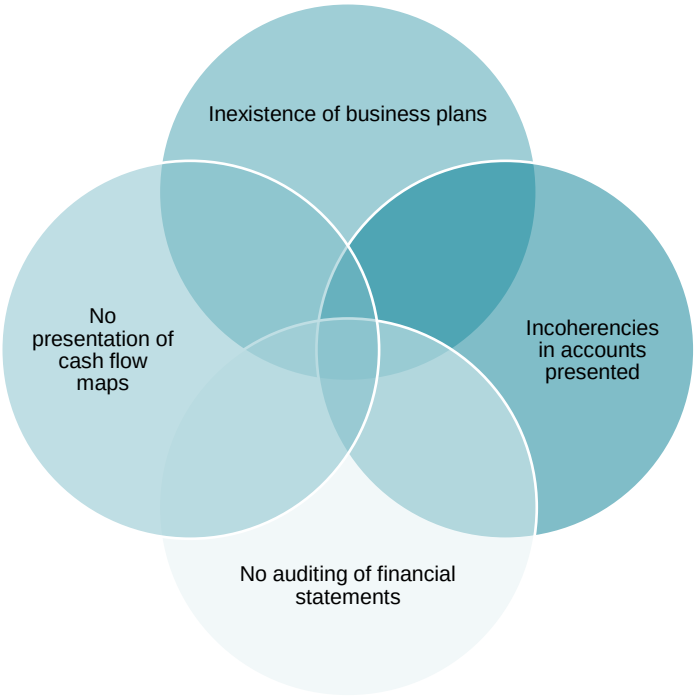
National businesses in Mozambique aim at creating products and services that meet the needs of the population. Most MSMEs in Mozambique are led by individuals who had the idea of creating the company, so that the vision and mission of the leader is shared by the rest of company as company values. This strong dependence on the leader presents itself as a high risk of failure in case he or she distances him/herself from the company. In addition society tends to place its trust in the leader figure. to the detriment of the organization as such.

The management philosophy of MSMEs approaches that of the "family business", which is characterized by resorting to alternative forms. The opening of capital to third parties is perceived as a loss of autonomy and control over the company. The family business in turn is characterized by the existence of a fine line between the capital of the company and the capital of the leader, often resulting in a lack of transparency in transactions that took place.

This lack of transparency is also related to poor skills of the leaders who do not attach importance to certain internal control methods such as, for example, the certification of their accounts, or who show poor financial discipline.

Companies at the end of the day, are managed as if they were "small business" rather than entities having a company structure. Their governance and management structure boils down to "individual leadership". MSMEs show weaknesses when it comes to the capacity to elaborate and present credible financial information.

Main **weak points in MSME management**



The Mozambican financial market is in a development phase and as such financing alternatives are very few and not very sophisticated. The following financing alternatives can be identified:

(i) Linhas de crédito

(i) Investment Capital

(ii) Development Banks

(ii) Microfinance

(iii) Mobile Money

Alternative financing sources

The Mozambican financial market is in a development phase and as such financing alternatives are very few and not very sophisticated. In addition, the national business community, especially MSMEs, still requires many improvements (see the challenges listed in the subsections *Transparency and professional management* and *Main Constraints of MSMEs*). Thus, it is possible to identify the following financing alternatives

Credit lines

According to the study of Ayani (2013), credit lines and guarantee facilities financed by Cooperation Agencies have encouraged banks to expand into the MSMEs and Agriculture sectors, but they have not been able to create a long-term impact or a sustainable expansion in Mozambique. These initiatives have had a positive impact on the qualitative level of the banks, such as the development of technical and technological capabilities directed towards MSMEs and the definition of strategies with respect to the question of collateral for the agricultural sector.

Investment Capital

From the capital market development perspective, the Mozambican legislation is not yet sufficiently developed to establish specific regulations for investment corporations or some other similar alternative. At present these must meet the same type of requirements as the commercial banks. However, there are three institutions in the market that somehow offer services that might fit into this context, namely: (i) the Stock Exchange; (ii) the Catalytic Fund; and (iii) GAPI. In addition to these formal opportunities, it is believed that there are also a number of non-banking Financing Institutions operating informally.

Development Banks

As in the case of investment corporations and the like, Mozambican legislation is not yet sufficiently developed to establish specific regulations for this branch. However the philosophy of the BNI is a Development Bank. This has focused on structuring and development projects. But in terms of acceptability this type of bank is still seen as a way to finance development facing challenges, given the history of the national banking system with the Banco Popular de Desenvolvimento (People's Bank for Development)

Microfinance

Microfinance constitute a relatively more expensive financing segment, as a result of high operating costs related to the credit methodologies of MSMEs. It should be noted here that this includes formal and informal microfinance institutions. Formal microfinance institutions can focus on medium-sized enterprises. The informal microfinance sector displays relationships that are not quite clear, such as the "xitique" practices, the moneylenders and the *mukheristas.* **[please note: I translate microfinance where the original speaks of macrofinance. I assume that is a mistake]**

Electronic/mobile money

There is also a potential for the provision of financial services in rural areas through mKesh and Mpesa. However, these are not viewed by the banks as a viable way to expand into rural areas. The main reasons for this are the poor coverage of the electricity grid and the level of financial literacy in rural areas.

High dependency from MSMEs on the individual that creates it. The vision, principles and operation are usually subject to this "founder".

The management philosophy of MSMEs is more like the "individual business" or "family business" and not that of a "company".

The MSME's management model, in general, is not very professional and transparent.

MSMEs have little knowledge about the various funding instruments and existing financing options.

Main Constraints

National Businesses (MSMEs) are faced with constraints which by their nature make it difficult to access the various sources of financing and high cost of financing. These aspects, linked to the Mozambican business culture and the conditions of the country's infrastructure lead to the risk associated with national business to be considered high. Thus it is important to highlight the following constraints, most emphasized in the course of this study:

Main Constraints

1 Leadership of MSMEs

MSMEs are led by an individual that created them. The vision, principles and the operation are usually subject to this "founder". This creates a dependency, increasing the risk of failure of MSMEs if this figure departs. This is a characteristic perceived to be general among MSMEs and as such the level of trust deposited in them usually more concerns the leading figure than the organization itself.

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2 Management Philosophy

The management philosophy of MSMEs is more that of the "individual business" or "family business" and not that of a "company". They do not open up their capital to third parties, thereby providing access to an alternative form of financing. This opening up to third parties is in general associated with loss of autonomy and control of the "business" and with the sharing of net income.

3 Profissional Management

MSMEs are currently not managed professionally and in a transparent manner. They are managed as if they were "business" and not companies, because their governance and management structure boils down to "individual leadership". In addition, most of them have no organized and audited financial accounts and poor financial discipline. This in turn has implications for the recognition of tax accounts..

4 Poor financial literacy

Access to credit for MSMEs is linked to financial education and the ability to perceive this information and, thus, to the capacity to negotiate at the same level. MSMEs have a poor knowledge about the various existing financial instruments and options. This has led to a concentration of attention to traditional "bank loans" as a source of financing.

A very low capacity with regard to collateral.

The level of capitalization of MSMEs is very weak.

Weaknesses in the preparation and presentation of credible financial information.

There are still some aspects that contribute indirectly to the debt capacity of MSMEs, in particular:

- Complex tax system;
- Judicial system slow in conflict resolution;
- A banking system not specialized in and not aligned with the intrinsic characteristics of national businesses.

5 Low collateralization capacity

MSMEs are characterized by their very low collateralization capacity. Collateral represents guarantees that can facilitate access to credit by customers, however, this is limited due to the lack of assets that may function as collateral. In addition, it is normal practice that assets presented by MSMEs are not registered in their Balance Sheet.

6 Weak level of capitalization of MSMEs

The level of capitalization of MSMEs is so weak that they have no financial autonomy, both in terms of participating in the loan applied for, as of being able to incorporate high-value assets on their balance sheet. This aspect is important in assessing the debt capacity of MSMEs.

7 Professional Financial Management

MSMEs have weaknesses in elaborating and presentating credible financial information. This concerns the development of business plans, the presentation of well-informed accounts, the auditing of accounts, the presentation of cash flow maps and reformulation in case of rescheduling of debts, management capacity in order not to apply funds for purposes other than those committed to the lender.

8 Legal and Institutional Environment

There are still some aspects that indirectly contribute to indebtness of MSMEs, in particular:

- Complex fiscal system that does distinguish between MSMEs and large companies;
- Judicial system slow in resolving conflicts with respect to enforcement of contracts and performance guarantees;
- The development of infrastructural catalysts for local development remains a challenge in the sense that there are still difficulties in enabling access to the market, flexible logistics, accessible management support systems and instruments, among other things;
- A banking system not specialized in accordance with each sector and that does not respond with financial products aligned to the intrinsic characteristics of national businesses.

Agriculture in general continues to be of the subsistence type, where production is aimed at first meeting subsistence needs and only in the second instance is there a commercial component.

The provision of insurance services for this sector is something to be developed, as there are still items for further analysis in order to create financial products better aligned and directed towards this sector.

On the one hand, limitated capability to offer collateral with commercial value acceptable. On the other hand there is the debate about the use of land or DUATs as collateral.

Poor literacy level with regard to accounting and financial management in the commercial (not subsistence) sense of activities.

Main Constraints

The agricultural sector historically is considered of paramount importance for the economy of Mozambique, representing in the last four years an average of 29.75% of GDP. However, the sector continues to face adversities that raise itsrisk level and hamper access to various sources of funding. The research carried out points to the following aspects of importance:

Main Constraints

1 Agricultural Practice

Agriculture continues to be of the subsistence type, where production aims at meeting subsistence needs first, before considering the commercial component. The use of rudimentary production systems remains the predominant model. The need for identification, awareness raising and dissemination of advanced systems is something discussed already, yet does not happen fast enough.

2 Undeveloped agricultural insurance market

The risks of MSMEs operating in the agricultural sector are higher given the prevalence of rudimentary and subsistence type systems. These risks could be mitigated if there were insurance services for this sector. There is scope for a better analysis for product evaluation/distinction by agricultural sub-sectors with a view to creating financial products better aligned and tailored to specific markets.

3 Poor capacity in offering collateral

The agricultural sector does not differ much from MSMEs in general, with regard to the capability to present collateral. In addition there is the issue of adding DUATs as collateral. This is an aspect that deserves attention given the irreversible positive and negative impacts it may have on land users. Another relevant aspect is the limited capacity to present collateral with acceptable commercial value. The most common type of collateral has been agricultural goods themselves (plows, etc.), which have no commercial value.

4 Poor financial literacy

Remarkable in this sector is the low level of literacy with respect to accounting and financial management in the commercial (and not subsistence) sense of the activity.

Agriculture is still predominantly prone to adverse weather conditions (risk of natural disasters).

The agricultural sector has a value chain that is not fully developed or concentrated on the farmer himself.

The actors in this sector have not focused on ensuring markets.

Financing for agriculture and agro-business is not given priority because of the risks associated with the activity - business opportunities for the financial sector in the sense of developing specialized financial institutions

5 Dependence on climate factors

Agriculture is still predominantly prone to adverse weather conditions (risk of natural disasters). In addition, this sector has the intrinsic characteristic of an investment taking some time to offer a return. This aspect is seen as contributing to funding for this activity being considered high risk.

6 Undeveloped value chain

The agricultural sector has a value chain that is not fully developed or else concentrated on the farmer himself. In the latter case it appears that farmers who produce, transport and sell are the one and the same. This has impacts on the production circle. Here we can see a gap in the approach to the development of agriculture, because mechanization and agribusiness as such are not the drivers of this sector.

7 Underdeveloped commercial segment

The actors in this sector have not focused on marketing. The presentation of an guaranteed market, assuming that the production conditions are appropriate, is an high-value asset in terms of collateral. It allows for the development of a more assertive sales plan and also provides the farmer negotiation capacity with the financier.

8 Few banks focused on agriculture

Financing of agriculture and agro-businesses is not given priority due to the risks associated with the activity, i.e. the risks of natural disasters, pests and the low level of agricultural and support infrastructure. This aspect represents an opportunity for the development of regulatory instruments and even business opportunities for the financial sector in the sense of developing specialized financial institutions.

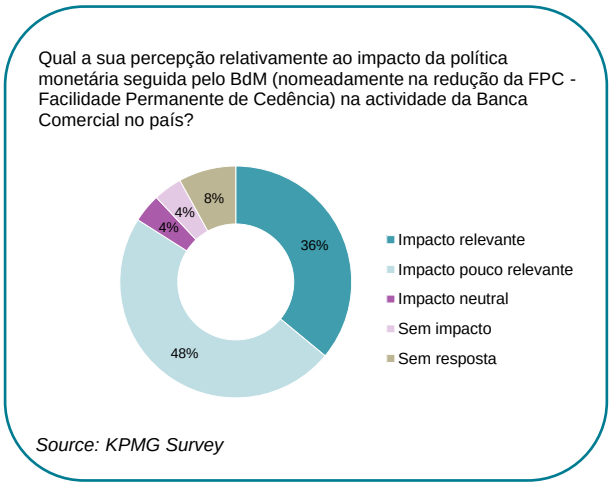
In general and according to respondents, the reduction of the FPC by the BoM did not have much impact on commercial banking activity in the country. This is due to the fact that the commercial banks do not use the FPC as index for the cost of financing, rather they use the PRIME rate and a spread in function of the perceived risk business.

The use of the PRIME rate is due to the confidence that this rate inspires in commercial banking. According to respondents, the FPC has the weakness that it does not represent the performance of the economy and that the Central Bank uses the FPC strictly from the perspective of inflation control.

1. Perception of the impact of monetary policy followed by the BoM (in particular the reduction of the FPC – Marginal Lending Facility) in the activity of commercial banking in the country.

Bank of Mozambique

According to the BoM, reducing the FPC has little impact on the economic activity of the country. The main reason, according to the BoM, is the fact that commercial banks have captured deposits remunerated at a higher interest rate and that the reduction would have a significant impact on their balance sheets. On the other hand, the BoM states that the commercial banks use other factors that have a direct impact on the calculation of the interest rate, such as investments in new branches.



The BoM explains that, given the concentration of commercial banking in just three institutions (75% of total deposits) it is possible to manipulate interest rates. However, this situation would be avoidable if there were more competition. Moreover, the BoM states that the legal authorities are responsible for these situations

- **Judicial System** - the Mozambican judicial system has no capacity to resolve disputes relating to loans in default. Therefore, guarantees are not timely executed.
- **Government** – the Government should train small businesses to prepare them for interaction with financial institutions.
- **IPEME** – IPEME could train microentrepreneurs and MSMEs to organize their financial records to facilitate the granting of credit by commercial banks, thereby reducing the risks associated with these entities.

Commercial Banks

In general, the commercial Banks are of the opinion that the FPC has little impact on interest rates because the Central Bank policy is strictly centered on controlling inflation. On the other hand, commercial banks do not use the FPC as an index for calculating interest rates applied and instead use the PRIME rate togeter with a spread in function of the perceived risk of the business. The PRIME rate is perceived as more representative of the risk of the economy, unlike the FPC, which cannot represent the weaknesses in the performance of the Mozambican economy. Furthermore, the commercial Banks points to the following factors with a direct impact on the calculation of applied interest rates:

- **Required Minimum Reserve** - required to hold 8% of deposits in the BoM, without pay.
- **Minimum Regulatory Provisions** - impacting on the Bank's capital.
- **Pension Fund Deposits of Public Enterprises** - institutionalized practice of auction system by pension funds of public companies with return rates of about 13% and 15%.

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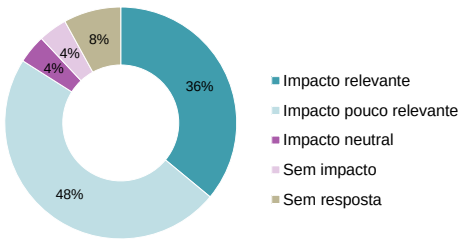
1. Perception on the impact of monetary policy followed by the BoM (in particular the reduction of the FPC - Marginal Lending Facility)on the activity of commercial banks in the country.

Private Sector and other Stakeholders

In general, the private sector and other stakeholders are of the opinion that the reduction of the FPC has not been accompanied by the Commercial banking, due to the following factors:

- **Bank concentration of deposits and credits** - the five largest banks, concentrate 85% of bank credit. This concentration is high and can be considered as oligopolistic.

Qual a sua percepção relativamente ao impacto da política monetária seguida pelo BdM (nomeadamente na redução da FPC - Facilidade Permanente de Cedência) na actividade da Banca Comercial no país?



Source: KPMG Survey

- **The deposit base is small and dominated by large depositors** - Pension funds (including the Bank of Mozambique), the INSS and all public companies. These institutions affect negotiating power because they demand high return rates for deposits made.
- **The FPC is not the reference rate for financing** - this index presents itself as cash flow management and notas an index for the granting of credits, i.e. the FPC is identified as a reference rate for commercial banking [**Do I miss something here? FPC is not a refernce rate and then it is identified as one?].**
- **Inefficiency of the interbank market** - the absence of exchange liquidity among financial institutions reduces the alternative sources of financing of the banks. Once the loans require collateral (such as Treasury Bills), these tend to be more expensive. During the last three years the BoM stopped issuing Treasury Bills, because the commercial banks used the liquidity available to invest in Treasury Securities rather than for financing the economy.
- **Little use of information systems by the banks** - financial institutions offer limited commercial information about their customers, resulting in an undifferentiated treatment of premium and other customers.

The issuing of Treasury Bills and Treasury Bonds should have a material impact on the liquidity of the banking system, given that it is be a mechanism for regulating the economy.

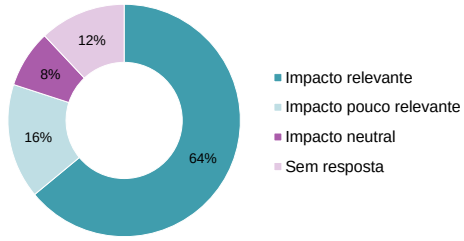
However, this mechanism has not achieved the desired objectives, since the banks (buyers) are obliged to resell 50% of the securities they bought to the public. This measure has benefited large companies at the expense of MSMEs.

2. Perception on the impact of issuing BTs and OTs on the liquidity of the banking system.

Bank of Mozambique

The BoM argues that BTs and OTs have a material impact on the liquidity of the economy because they absorb the excess liquidity of the banking system. In issuing these securities, financial institutions have responded positively by buying all securities made available.

A par da redução da FPC, o BdM tem recorrido à emissão de BTs - Bilhetes do Tesouro e ou OTs - Obrigações de Tesouro. Qual a sua percepção relativamente ao impacto que tem a emissão de BTs e OTs pelo BdM na liquidez do sistema bancário?



Source: KPMG Survey

Commercial Banks

On the one hand, the commercial banks are of the opinion that the issue of BTs and OTs has a material impact on the liquidity of the banking system, because it is part of a a whole process to regulate the economy - since the BoM withdraws liquidity it has a direct impact on boosting the economy. However, on the other hand they also state that the issuing of OTs and BT has only benefited large economic groups because there is a lack of access to these tsecurities by MSMEs.

Private Sector and other Stakeholders

On the one hand, respondents in this group reported that the impact of issuing BTs and OTs on the liquidity of the system is of little importance, because for the banks irt is less risky to buy government bonds than grant credit to the economy. On the other hand, respondents are of the opinion that the impact is relevant for large economic groups, since the commercial banks resell the securities to these entities, excluding the MSMEs. In addition, they argue that BTs and OTs do not stimulate the economy because the banks no longer grant credit to buy these securities. Despite the requirement to pass 50% of bought securities on to the business sector, the latter is made up of the largest companies only, leaving MSMEs without liquidity to fund their activities.

The FPC and FPD have had little impact on the control of inflation because these instruments do not have a direct relationship with inflation.

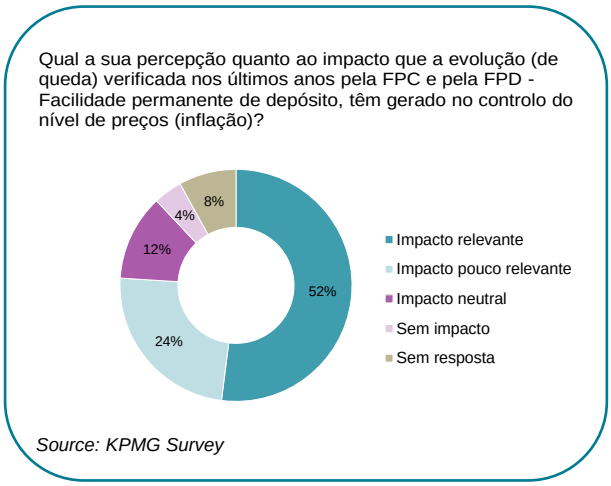
The variations in FPC and FPD only impact the monetary base and are overshadowed by the fact that most of the raw materials and products sold are imported. Thus, inflation depends on external prices.

3. Perception of the impact of the evolution (reduction) in recent years of the FPC and the FPD – Marginal Deposit Facility, on the control of the price levels (inflation).

Bank of Mozambique

According to the opinions of respondents, the FPC and FPD have had little impact on the control of inflation because these instruments affect the monetary base and have no direct link with inflation.

De acordo com as



Source: KPMG Survey

Commercial Banks

In general, the commercial banks consider the reduction ofg the FPC and FPD to have had la negligable impact on the control of inflation, because there is no evidence that inflation will change in accordance with the change in FDC and FPD. This is due, according to respondents, to the existence of a strong informal economy whose prices are not affected by inflation but by other specific factors. The formal economy tends to be affected by inflation but as yet it has only a relative weight in the Mozambican economy.

Private Sector and other Stakeholders

However, the private sector and other stakeholders consider that the FPC and FPD constitute an important mechanism for controlling inflation.

On the one hand, inflation control in recent years has been the result of a reduction in FPC and FDP, according to the interviewed private sector actors and other stakeholders. Furthermore, transmission mechanisms are overshadowed by the fact that most of the raw materials and products are imported, so that prices are affected by the macroeconomic variables of imported economies.

The level of liquidity of the banking sector in Mozambique has been high in recent years. This excess liquidity has to do with foreign aid and significant investments in the Mozambican economy.

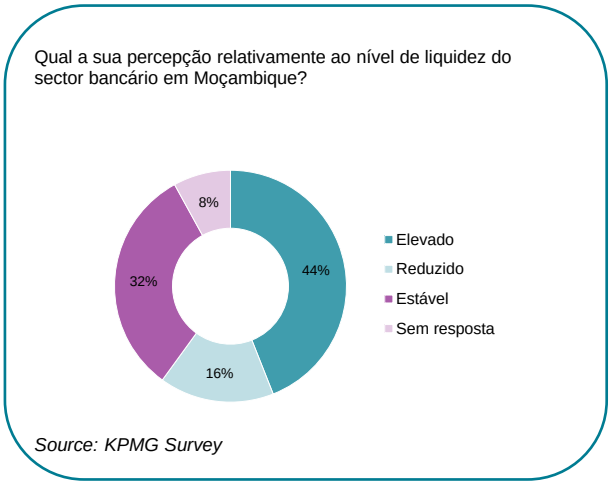
However, the banks use excess liquidity for the BoM bonds instead of granting credit to the economy at a higher cost.

On the other hand, respondents state that liquidity is poorly distributed, given that it is concentrated in the three largest commercial banks. These commercial banks are supported by deposits from their customers. However, the liquidity of new banks is not satisfactory.

4. What is your perception concerning the level of liquidity of the banking sector in Mozambique?

Bank of Mozambique

The level of liquidity in the banking sector in Mozambique has been high in recent years. This excess liquidity has to do with foreign aid and significant investments in the Mozambican economy. However, banks use excess liquidity for the BoM bonds instead of for granting credit to the economy at a higher cost. At present there are MZN 32 billion deposited in commercial banks with the Central Bank



Commercial Banks

Commercial banks have different perspectives on liquidity in the banking system. On the one hand respondents feel that the level of liquidity is stable due to the banking system ability to fund national projects (excluding major projects) and because of the existence of other external sources that inject liquidity into the banking system (new investors, partners, etc.). On the other hand respondents feel that the level of liquidity is limited, due to:

- **Competition for the same deposits (low demand)** - the banks have high deposit interest rates to attract customers and thus acquire liquidity due to the inexistence of financing alternatives.
- **Capital flight** - for reasons of potential political and social instability
- **Poor distribution of liquidity** - liquidity is concentrated in the three largest commercial banks. The liquidity of new banks is not satisfactory [**please check error in original :'satisfactory', should be 'not satisfactory'**].
- **Mega projects** - although these mega projects presuppose investment and capital movements, the amounts invested are requested from commercial banks who have to increase their level of credit with foreign entities to meet liquidity needs.

Private Sector and other Stakeholders

In general, respondents in this group feel that the level of liquidity in the banking system is high. However, they are of the opinion that excess liquidity of commercial banks is not being transferred to the economy by increasing credit lines.

According to the BoM, the restrictions on lending in foreign currency have a material impact on the liquidity of the banking system.

The reason is that the banks receive high foreign currency deposits but will not be allowed to grant credit in the same currency.

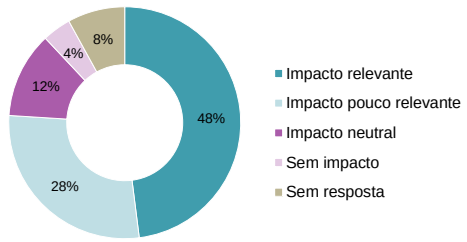
On the other hand, according to the commercial banks this impact is not very relevance because the weight of foreign currency deposits is limited.

5. Perception concerning restrictions on lending in foreign currency and the impact this limitation has on the liquidity of the banking system.

Bank of Mozambique

According to the BoM, the restrictions on lending in foreign currency have little impact **??** on the liquidity of the banking system]. The limitation consists in only granting loans in foreign currency export operations. According to respondents, this measure does not interfere with the operations of commercial banks despite having an impact on operations of exporters that benefit the national commercial banks through the margins on the purchase and sale of foreign exchange.

Qual a sua percepção relativamente à limitação da concessão de crédito em moeda estrangeira e o impacto que esta limitação têm na liquidez do sistema bancário?



Source: KPMG Survey

Commercial Banks

On the one hand, respondents feel that the restrictions on lending in foreign currency have a material impact on the liquidity of the banking system because banks with high foreign currency deposits that cannot be transformed into lending. Moreover, foreign currency investments in the domestic market do not have significant returns due to the reduced transformation ratio in foreign currency. On the other hand, this group is of the opinion that the impact is of little importance because the weight of foreign currency deposits is limited in comparison with deposits in national currency. Thus, customers use alternative methods to make payments through foreign banks, such as the creation of offshore companies and other mechanismsin order to prevent the conversion of 50% of the national currency.

Private Sector and other Stakeholders

In general, respondents think the impact of restrictions on lending in foreign currency on the liquidity of the banking system is neutral, because deposits in foreign currency cannot be converted into credit. Despite the banks having liquidity, this cannot be applied to the economy.

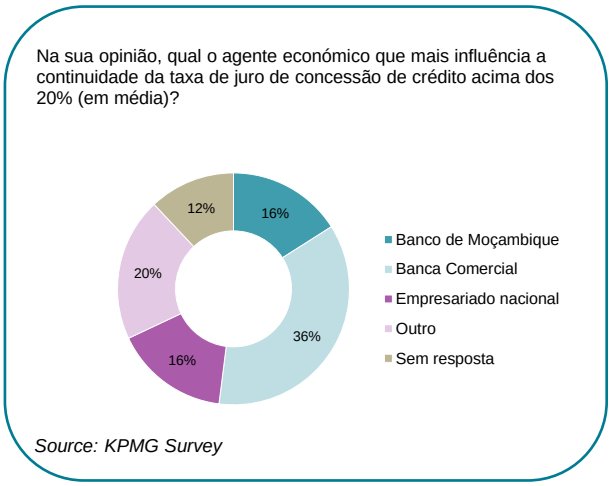
Commercial banks assume on the one hand that they influence interest rates and on the other hand indicate the Judicial System as one of the main economic agents responsible for credit interest rates remaining above 20%, due to the slow processing of litigation processes.

On the other hand, the lack of financial organization and management of various companies does compromise their credibility and the real guarantees offered to banks. In addition, there is a lot of red tape associated with the execution of guarantees by the courts, making for a time-consuming process.

6. Economic agent mostly responsible for credit interest rates remaining above 20% (on average).

Bank of Mozambique

According to respondents, the economic agent mostly responsible for credit interest rates remaining above 20% are the banks.



Source: KPMG Survey

Commercial Banks

For this group of respondents, the economic agent mostly responsible for credit interest rates remaining above 20% is, on the one hand, the commercial bank because:

- **The fundamental basis for lending are deposits** - the liability structure of banks is based on attracting customer deposits. Only by taking deposits is it possible to turn this liquidity in credit and campaigns to attract new deposits have products showing rates that are not below 2 digits.
- **Commercial banks have an obligation to maintain 8% of their deposits in the BoM** - Required Reserves are not remunerated by the BoM, however, there is an opportunity cost for not using this liquidity. In addition, the banks are required to provide Required Reserves in local currency even if their base consists of foreign currency deposits.
- **The group of depositors with high liquidity** (pension funds of some public enterprises) - the largest economic agents have the necessary purchasing power to negotiate high rates of return on their deposits.

On the other hand, national businesses and the Judicial System are also mentioned as economic actors mostly responsible for credit interest rates remaining above 20% because:

- **Difficulty of national entrepreneurs in offering financial security** - this is due to many companies not having organized accounting and management.
- **Lack of guarantees by entrepreneurs** - given the limited assets of entrepreneurs, lending becomes more difficult because they are considered a risk group when it comes to recuperating credit.
- **Inefficient Judicial System** - the realization of collateral by financial institutions becomes a time-consuming process due to the inefficiency of the courts, translating in credit recovery becoming a major difficulty with a direct impact on the interest rate that measures the risk of default.

According to the respondents of the BoM, the economic agent mostly responsible for credit interest rates remaining above 20%, are the commercial banks. According to the BoM, commercial banks should renegotiate the high costs derived from the auction of pension funds deposits of public enterprises.

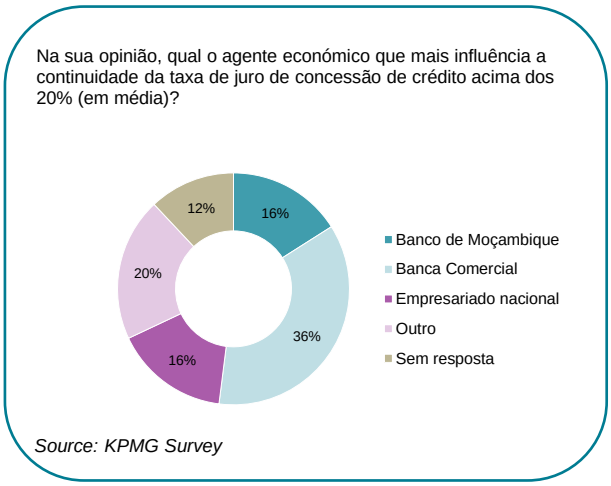
On the other hand, the lack of financial organization and management of various companies compromises their credibility and the collateral offered to the banks. Moreover, there is a lot of red tape associated with the execution of guarantees by the courts, making for a time-consuming process.

The BoM has primary responsibility as Regulator, Investor and Financier of the Financial System.

6. Economic agent mostly responsible for credit interest rates remaining above 20% (on average).

Private Sector and Other Stakeholders

The BoM, Public Enterprises and commercial banks are mentioned by this group of respondents as the economic agents mostly responsible for lending rates remaining above 20%, due to:



Source: KPMG Survey

- **The BoM has primary responsibility as Regulator, Investor and Financier of the Financial System** - The BoM's function is to regulate and reverse the structure of the market to avoid the existence of an oligopoly structure; regulate the use of the pension fund of Public Enterprises.
- **Public companies** - determine or influence the interest rate (realize pension fund deposit auctions remunerated up to 15%, so that commercial banks increase their interest rates to cover the cost of obtaining this liquidity).
- **Commercial banks** - According to respondents, the commercial banks do not have information about their customers. In addition, there is no parallel credit registration computer system between banks and there is no central credit risk information that would enable to differentiate in applying interest rates in accordance with perceived risk. Moreover, respondents believe that the banks have no uniform approach as to which guarantees are to be accepted for lending purposes, thus increasing risk.

The main perceived risks in lending to national businesses are:

- No business plan;
- Lack of credible financial information;
- Lack of guarantees;
- Shortage of capital.
- Low borrowing capacity.

There are significant differences between financial reporting submitted to finance and effective financial reporting that influences the perceived risk of the company.

Given the concentration of the informal economy, MSMEs do not prepare financial statements in order to obtain bank financing.

1. With a view to granting credit, in your opinion, which are the main perceived risks related to national businesses, especially MSMEs? (list the 5 most relevant by order of relevance).

Bank of Mozambique

The risks perceived by BoM respondents related to lending to national businesses are:

Os riscos percepcionados pelos entrevistados pelo BdM na concessão de crédito ao empresariado nacional, são:

- No collateral;
- No audited accounts;
- No business and tax registration;
- Lack of robust own capital.

Commercial Banks

According to commercial bank respondents the risks are:

- **Lack of credible financial information** - audited accounts, financial discipline in accordance with the level acceptable by commercial banks. There are significant differences between financial reporting submitted to the department of finance and effective financial reporting, which influences the perceived risk of the company.
- **No business plans** - the lack of a business plan implies that there is no clear planning of the company's operations for the next 3-5 years.
- **No guarantees** - the business has no assets that can be used as collateral.
- **Poor capital level –** Difficulties in monitoring the treasury.
- No succession plan - often there is no plan for the continuity of the business and / or the replacement of the current leader.
- Management risk – entrepreneurs on several occasions control the company from a distance, which hampers the monitoring of the business on a daily basis. Difficulties in paying suppliers within the agreed deadlines cause financial difficulties for MSMEs, which in turn take recourse to bank overdrafts with high interest rates, increasing the costs for MSMEs.

Private Sector and Other Stakeholders

For this group, the risks perceived in lending to MSMEs are:

- **No business plans** – entrepreneurs manage the cash flow but do not control the accounts.
- **No credible financial information** - Given the informality of the economy, MSMEs have no financial statements suitable for obtaining bank financing.
- **No guarantees and undercapitalization** - innovative solutions are required in commercial banking to respond to market characteristics.
- **Organized and transparent management** - entrepreneurs are not confronted nor accountable for their actions. Additionally the judicial system is not sufficiently quick to respond in a timely manner to judicial proceedings.

According to respondents, the average interest rate for granting credit practiced by the commercial banks will see a reduction in the next three years.

As far as mega-projects are concerned, respondents state that there will be a downward trend in the average interest rate, taking into account the dynamics of the economy. Some risk factors are mitigated and there will be a trend to reduce the rate which could favor MSMEs and improve the macroeconomic environment.

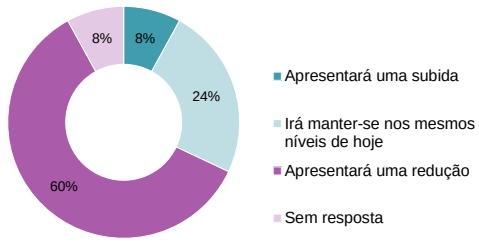
In addition, if the level of credit market concentration were to reduce interest rate levels would reduce accordingly.

2. Perception about the evolution of the average interest rate (the granting of credit) currently used by commercial banks (corporate market) over a period of 3 years?

Bank of Mozambique

According to the interviewees, there will be a downward trend in average interest rates. This is explained by the fact that many risk factors are mitigated by the dynamics of the economy. Thus, MSMEs are likely to be favored if risks are reduced and hence the macroeconomic environment will improve.

Na sua opinião, e num período temporal de 3 anos, qual a sua percepção sobre a evolução da taxa de juro média (pela concessão de crédito) praticada actualmente pela Banca comercial (mercado corporate)?



Source: KPMG Survey

Commercial Banks

Commercial banks are unanimous in stating that the average interst rate for the granting of credit practiced by the commercial banks will see a reduction in the coming three years (provided the mega projects will continue).

Private Sector and Other Stakeholders

This group is not unanimous on the evolution of average interest rates. On the one hand, the group states that the average interest rate in lending practiced by commercial banks will remain stable during the next three years. On the other hand, they state that the interest rate will decrease. These conclusions are based on the following:

- **State intervention** – without administrative measures from the BoM, it will remain stable in the medium term, but in the long run it will decrease because there will be more financial institutions in the market (increased competition).
- **Competition** - if new banks are able to compete with the existing ones then this will lead to a reduction of financing costs.
- **Concentration in the credit market** - the three largest banks have 75% of all bank loans, i.e. these banks have an oligopolistic position. According to respondents, if the level of credit market concentration were to decrease then the interest rate levels would decrease accordingly.

According to the BoM, the interest rate charged on deposits will tend to fall, if there is:

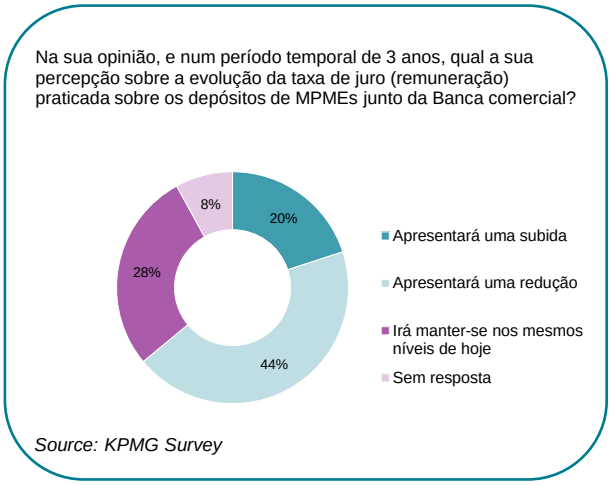
- **More competitiveness;**
- **Economic growth of the country;**
- **Smaller minimum capital requirement.**

3. Perception about the evolution of the interest rate (remuneration) for deposits by MSMEs with commercial banks for a 3-year period

Bank of Mozambique

According to the BoM, the interest rate charged on deposits will tend to fall in the case of:

- **More competitiveness** – a largwer number of banks may lead to lower interest rates.
- **Economic growth of the country** - growth that the country is experiencing can lead to an increase in the number of banks in the country.
- **Reduction of mandatory minimum capital** - to strengthen the banks.



Banca Comercial

Respondents representing the commercial banks are unanimous in that the average interest rate for the remneration of deposits practiced by commercial banks will decrease in the next three years if everything remains constant (if the mega projects continue).

Private Sector and Other Stakeholders

This group is not unanimous with respect to the evolution of average interest rates. On the one hand it states that the average interest rate for the remuneration of deposits practiced by commercial banks will remain stable over the next three years. On the other hand they mention that it will decrease. These conclusions are based on the following:

- **State intervention** – without administrative measures by the BoM, it will remain stable in the medium term, but in the long run it will reduce because there will be many financial institutions in the market.
- **Competition** – in case new banks are able to compete with the existing ones.
- **Concentration in the credit market** - the three largest banks have 87% of all bank deposits, giving them n oligopolistic power. If the level of concentration of the deposit market were to reduce the interest rate levels would decrease accordingly.

The main risks of MSMEs operating in the agricultural sector are:

- Unpredictable sector - prone to adverse weather conditions (risk of natural disasters). The return on investment is slow.
- Absence of agricultural insurance and lack of collateral - agricultural land has no value as collateral. Agricultural assets also have no commercial value which is why insurers are not focused on this sector.
- Broken value chain - the farmer himself produces, distributes and sells on the market and thus breaks the production circle.

4. Perception of the risks associated with MSMEs operating in the agricultural sector? (list the 5 most relevant by order of relevance)

Bank of Mozambique

For BoM respondents the risks associated with MSMEs operating in the agricultural sector are:

- **Lack of mechanized agriculture** - so as not to be so prone to climatic risk.
- **Lack of agricultural insurance** – Due to the absence of guarantees, insurance companies do not focus on this sector.
- **Land and DUATs cannot be considered collateral** - in Mozambique, the land is state property and the farmer has the right to work that land, it has no economic value.
- **Lack of training in accounting** - there is no dissemination of the importance of financial and accounting procedures.
- **High interest rates in this sector** - the fact that there are many lines of agricultural financing increases the risk of the sector. According to the BoM, despite the existence of credit lines, these are managed by commercial banks which have uncompetitive interest rates.

Commercial Banks

Commercial banks consider the agricultural sector to be high-risk, due to the lack of agricultural insurance, which makies it difficult to finance the sector and also because land is not eligible as collateral. The main risks are:

- **Unpredictable sector** - prone to adverse weather conditions (risk of natural disasters). The return on investment is slow. The State, NGOs, banks and other sectors should come together to find solutions for the agricultural sector, because liquidity exists but there are no guarantees.
- **No agricultural insurance and lack of collateral** - agricultural land has no value as collateral. Agricultural assets have no commercial value which is why insurers are not focused on this sector.
- **Price volatility in international markets** - farmers who are exporting are prone to this volatility.
- **Broken value chain** - the farmer himself produces, distributes and sells on the market and is thus breaking the production circle.
- **Underdeveloped commercial side** - the commercial side still needs to be developed. Cooperatives are not well established, which hampers the perception of business risk by banking entities.

The main risks of MSMEs operating in the agricultural sector are:

- Unpredictable sector - prone to adverse weather conditions (risk of natural disasters). The return on investment is slow.
- Absence of agricultural insurance and lack of collateral - agricultural land has no value as collateral. Agricultural assets also have no commercial value which is why insurers are not focused on this sector.
- Broken value chain - the farmer himself produces, distributes and sells on the market and thus breaks the production circle.

4. Perception of the risks associated with MSMEs operating in the agricultural sector? (list the 5 most relevant by order of relevance)

Private Sector and Other Stakeholders

The private sector and other stakeholders consider the following risks associated with MSMEs operating in the agricultural sector:

- **Lack of coll**ateral - the DUAT is a title awarded by the state for working the land, however the land is owned by the Mozambican state. This is why the DUAT, despite being used as guarantee, may be withdrawn by the State in case it needs the land (e.g. in the case of expropriation).
- **Lack of corporate structure** - management in the agricultural sector remains archaic, translating into a corporate structure finding it difficult to negotiate with banks..

Agriculture is still of the subsistence/family type so it is difficult to transform it into a business/company. In addition, another highlighted aspect has to do with the difficulty of placing the product on the market, due to:

- **Sector with high risk** - the risk of MSMEs operating in the agricultural sector are high given that the country is emerging. In addition, businesses have no capital available due to structural issues of the economy itself. On the other hand respondent report that there is a lack of product evaluation capacity on the part of the banks. It is difficult to assess the risks of MSMEs in the agricultural sector.
- Non-existent or underdeveloped value chain - the farmer himself produces, distributes and sells on the market and thus breaks the production circle. The supply chain of this sector does not exist or is concentrated on the farmer himself.
- Adverse natural conditions - sector prone to adverse consitions, even with high investments.

According to the interviewees, the reduction of credit risk requires the following actions by MSMEs:

- Improvement of company management - promotion by the IPEME of MSMEs' capacity to create a financial and accounting system to reduce the perceived risks.
- Transparency in management - The state should prepare small businesses so that they are able to deal with banks.
- Use of guarantee fund - the role of CTA begins by disclosing the existence of the guarantee fund to help offset the lack of collateral of MSMEs.

5. In your opinion, in particular MSMEs – Which actions should these MSMEs take in order to reduce the risk of perceived credit / interest rate.

Bank of Mozambique

The BoM thinks that the following actionsshould be taken by MSMEs to reduce credit risk:

- **Improvement of company management** - promotion by the IPEME of MSMEs' capacity to create a financial and accounting system to reduce the perceived risks.
- **Improvement of interaction with the banking system** - given the inefficiency of the judicial system the execution of guarantees is time-consuming. Moreover, there is no authority for the resolution of conflicts concerning signed contracts.
- **Transparency in management** - The state should prepare small businesses so that they are able to deal with banks.

Commercial Banks

According to the commercial Banks the actions to be taken to reduce the risks of lending to MSMEs are:

- **Financial autonomy of MSMEs** – according to the commercial banks MSMEs often request the entire investment they need without presenting significant collateral. This hampers MSMEs in obtaining financing.
- **Presentation of collateral** - MSMEs often do not have the collateral used for funding in their balance sheets. This is a risk for the banks because it involves mortgaging assets that do not have firm achievable guarantees.
- Organized and transparent accounts - the financial information of MSMEs is fragile and does not guarantee credibility. MSMEs often do not distinguish between private and company accounts, leading to an incorrect depiction ofthe actual financial situation. In addition, the original purpose of the funding requested often differs from that declared by the entrepreneur, which leads to lack of credibility vis-á-vis the banks.

Private Sector and Other Stakeholders

This group of respondents think the following actions should be taken by MSMEs to reduce credit risk:

- **Training of entrepreneurs** - according to respondents, the state should create mechanisms for changing statutes of entrepreneurs. **[??? Please check, Training?]**
- **Improve management and the business plan** - to improve the business organization by increasing the responsibilities of the "boss" as company manager. Creation and upkeep of credible and sustainable long-term business plans, allowing for a vision of the company business.
- **Use of the guarantee fund and subsidized loans** - the role of CTA begins by disclosing the existence of the guarantee fund to help offset the lack of collateral of MSMEs.

According to the interviewees, the reduction of credit risk requires the following actions by MSMEs:

- Improvement of company management - promotion by the IPEME of MSMEs' capacity to create a financial and accounting system to reduce the perceived risks.
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De

5. In your opinion, in particular MSMEs – Which actions should these MSMEs take in order to reduce the risk of perceived credit / interest rate.

- **Mobile collateral registration center** – creation of a movable database for the registration of property that could serve as collateral for bank loans, given that banks only accept real estate assets.
- **Development funds** - respondents were not unanimous. On the one hand they feel that a Development Bank should be created because:
  - credit lines are not applicable to the development of the productive sector, because interest rates are very high.
  - there is a need for innovative solutions in banking in order to meet the characteristics of a market with a lack of collateral and widespread undercapitalization of MSMEs.
  - it is difficult to assess the risks associated with MSMEs from different sectors à.

  On the other hand, respondents state that a development bank is not necessary because:
  - development banks imply state intervention due to the nature of their activity, and the funds created have a social component.
  - due to the promiscuity between businesses and politics they run the risk of accepting projects with poor financial viability but with high returns in terms of politics.

According to respondents, the main reasons for the commercial banks to employ, on average, an interest rate above 20%, are:

- **Cost of capital - the main source of bank credit are deposits and these have a high funding costs, since banks tend to resort to attractive and high interest rates to capture the largest deposits.**
- **Risk perception - there is no centralized information service that identifies the financial situation with a view to lending.**
- **Lack of reliable information - there is a tendency for MSMEs to use different financial reports for different purposes.**
- **Lack of guarantees - there is shortage of collateral acceptable by banks.**

1. From the standpoint of access to credit / cost of money which are the main reasons for the commercial banks to employ, on average, an interest rate above 20% (MSMEs)? (list the 5 most important ones in order of relevance).

Bank of Mozambique

According to the BoM respondents the main reasons for the commercial banks to employ, on average, an interest rate above 20% are:

- Cost of capital
- Administrative costs
- Margin of shareholders
- Project Risk / company
- Market competition

Commercial Banks

The commercial banks are of the opinion that the main reasons for employing, on average, an interest rate above 20%, are:

- **Cost of capital** - the main source of the bank credit are deposits and these have high funding costs, since banks tend to resort to attractive and high interest rates to attract the largest deposits. A significant share of deposits taken in the banking system is from government entities. On the other hand, there are banks that structurally do not intervene in the interbank market to keep their market shares. In addition, commercial banks are required to hold 8% of their deposits in the BoM - Minimum Required Reserve (not remunerated).
- **Risk perception** - there is no centralized information service that identifies the financial situation with a view to the granting of credit. Due to lack of information, the risk attributed corresponds to the risk perceived by the bank, which uses its own methods to classify risks.
- **Lack of reliable information** - there is a tendency for MSMEs to present different financial reports for different purposes. Personal and company assets are not distinguished.
- **Lack of guarantees** - there is a shortage of collateral acceptable by banks. In addition, the waiting time for the execution of guarantees adds to the cost, with an impact on the interest rate.
- **Other administrative cost of granting and managing credit** - in addition to the above, the commercial banks state that the administrative costs related to the granting of credit are also reflected in the applied interest.

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1. From the standpoint of access to credit / cost of money which are the main reasons for the commercial banks to employ, on average, an interest rate above 20% (MSMEs)? (list the 5 most important ones in order of relevance)

Private Sector and Other Stakeholders

For this group, the main reasons for commercial banks employing, on average, an interest rateabove 20%, are:

- **Cost of capital** - the commercial banks do not finance iheir current activities in FPC. The private sector and other stakeholders report that there are financial institutions in Mozambique that determine or influence the interest rate, given that they pay deposits up to 15% and then use this rate as a benchmark for the interest rates they charge.
- **Low liquidity of banks** - according to this group, there are few depositors in the banking system. In addition, 87% of deposits are concentrated in only three banks, so the liquidity surpluses are not shared in the interbank market. The liquidity dries up in the BoM and is not transmitted between banks. Due to a lack of information and skills, rural areas which constitute a liquidity opportunity for banks continue to be difficult for deposit-taking..
- **Lack of credit history** - the banks do not have information about their customers. Lack of centralized credit risk information that would allow the application of different interest rates in accordance with the credit history..
- **Lack of database for guarantees** - there are credit guarantee funds for MSMEs that are not being adequately used for lack of knowledge. The role of CTA begins by disclosing the existence of these funds to help address the lack of collateral of MSMEs.
- **Lack of transparent information** - there is a general difficulty in finding clients with debt capacity. MSMEs have difficulty in segregating the private financial component from the financial component of the company.

According to respondents, the level of transparency of MSMEs in the sharing of accounting information with financial institutions and the tax authority is low because:

- **MSMEs's submit results to tax authorities that differ from those submitted to the Bank.**
- **There is a high level of informality, tax evasion and lack of proper accounting.**

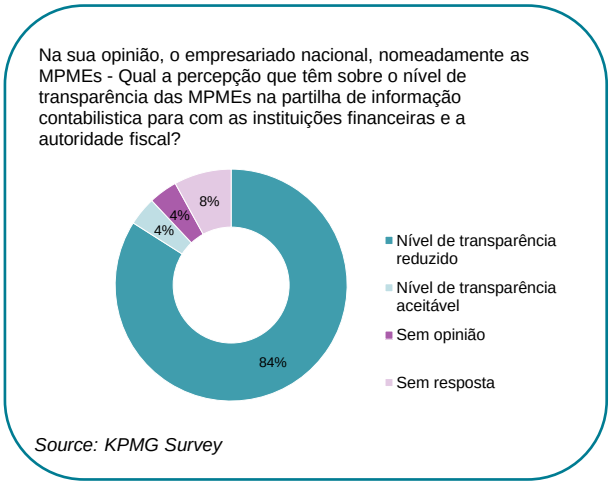
2. Perception of the level of transparency of MSMEs in the sharing of accounting information with financial institutions and the tax authority.

Bank of Mozambique

For the BoM, the level of transparency of MSMEs in the sharing of accounting information with financial institutions and the tax authority is low.

Commercial Banks

According to respondents, the commercial banks also consider the level of transparency of MSMEs in the sharing of accounting information with financial institutions and the tax autyority to be low.



Source: KPMG Survey

According to the banks MSMEs submit results to tax authorities that differ from those presented to the bank, creating some distrust when it comes to the credibility of these results. There is a shortage of qualified human resources or specialist companies providing accounting and auditing services to MSMEs at competitive prices.

Private Sector and Other Stakeholders

For this group, the level of transparency of MSMEs in the sharing of accounting information with financial institutions and the tax authority is also low. According to this group, this is due to the high informality in the economy, tax evasion and a widespread lack of proper accounting.

The group proposes the implementatin of training, capacity building and awareness raising of national entrepreneurs with respect to the need to have organized accounts. The hiring of qualified accountants and the certification of accounts through an audit may help to improve this situation. The state, according to respondents, should also play an important role in this process by enhancing and training national entrepreneurs.

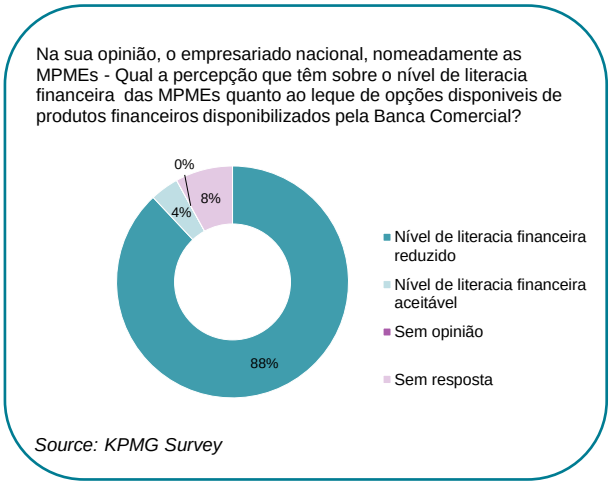
Despite being supported by foreign entities, the Government has difficulties in directing the support from these entities.

The level of financial literacy of MSMEs with respect to the range of financial products offered by commercial banks is low but has been improving through the efforts of CTA and IPEME. These entities have created conditions to train people, however,there is a lack of culture and rigour in terms of management. On the other hand, maybe the banks are not disseminating the financial products best suited to their clients' needs.

3. Perception of the level of financial literacy of MSMEs with respect to the range of financial products offered by commercial banks.

Bank of Mozambique

The BoM is of the opinion that the level of financial literacy of MSMEs with respect to the financial products offered by Commercial banking is low.



Commercial Banks

The commercial banks consider the level of financial literacy of MSMEs with respect to the financial products offered by Commercial banking to be low. all in all. However, they feel the situation is improving due to the efforts of CTA and IPEME, who have created' conditions to train people, although there is a lack of culture and rigour in terms of management.

Private Sector and Other Stakeholders

For the private sector and other stakeholders, the level of financial literacy of MSMEs with respect to the financial products offered by Commercial banking is also low because the banks are not aggressively disseminating financial products tailored to the type of credit available and the maturity period that best suits their needs.

In the perception of the BoM, the BVM is not an alternative option for financing MSMEs, because it was never originally conceived to serve this segment of companies. This segment has limitations in terms of capital.

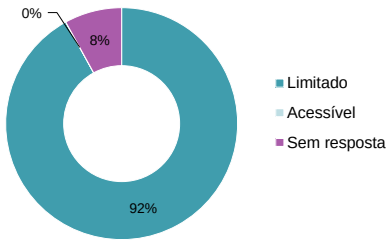
MSMEs are not in a position to meet the membership requirements of the BVM. There are credit lines for MSMEs subsidized by USAID / SPEED available in the banks, which are not used due to the strict requirements. A guarantee fund is being established that will serve as support to MSMEs and allow these to have access to lower rates in commercial banks.

4. Perception of the capacity of MSMEs to have access to the BVM (from the perspective of alternative financing).

Bank of Mozambique

In the perception of the BoM the BVM is not the alternative option for financing MSMEs because it was not originally designed for companies from this segment. This segment has limitations in terms of capital. However, it has alternative sources of funding in the development banks and the development fund. In addition a guarantees fund is being established for covering small companies, which will serve as a support for MSMEs and allow access to lower interest rates in the commercial banks.

Na sua opinião, qual a sua percepção sobre a capacidade de acesso das MPMEs à BVM (numa óptica de financiamento alternativo)?



Source: KPMG Survey

Commercial Banks

For commercial banks, the capacity of MSMEs to access the BVM is limited because MSMEs are unable to meet the strict membership requirements. There are credit lines for MSMEs subsidized by USAID/SPEED available in the banks that are not used because few projects are able to meet the strict conditions for using these credit lines.

Private Sector and Other Stakeholders

The capacity of MSMEs to access BVM is limited, according to the private sector and other stakeholders. The BVM is still in a very early stage and is hardly an alternative for MSMEs. Moreover, information about the BVM is not widely spread and it is not yet well represented, which is why many MSMEs are unaware of its existence.

Actions to be considered for reducing the credit risk in the banking sector are:

- Reducing exposure of the Bank - resolution of the constraints on commercial banks' "pension fund deposit auctions", created by the large depositors.
- Regulation of institutions with liquidity in auctioning time deposits - deposits rate of return set administratively by the BoM, in order to avoid auctions of large deposits and eliminate the imposition of prices by large depositors.
- Design of products and services linked to the type of market demand - prices should be differentiated by sector, given the risks perceived in each sector.

5. Which measures could be taken by the banking sector (including the BoM) in order to lower the perceived credit risk/reduce the interest rate.

Bank of Mozambique

The BoM points to the following actions to reduce the credit risk, to be considered by the banking sector:

- **Presentation of a sustainable solution** - limits (ceilings) can be set to interest rates, however there are ways to get around limits (commissions, pledged deposits, etc.).
- **Inflation control** - the sustained solution is to guarantee small inflation fluctuations to ensure future earnings.
- **Reducing exposure of the Bank** - solve the constraints on the commercial banks' pension fund deposit auctions, created by the large depositors. Banks could lend on the interbank market to reduce exposure to the lack of liquidity.

Commercial Banks

The commercial banks consider the following actions to reduce credit risk.

- **Regulation of institutions with liquidity in the time deposits auctions** - the rate of return on deposits is fixed administratively by the BoM in order to avoid auctions of large deposits and to eliminate the imposition of prices by the large depositors.
- **Design of products and services linked to the type of market demand** - prices should be differentiated by sector, given the risks perceived in each sector.
- **Creation of a center for shared risk information** – whicjh allows to assess the client's risk and fix the interest rate according to the risk level.

Private Sector and Other Stakeholders

According to respondents, the private sector and other stakeholders think the following actions should be taken:

- **Center for private credit registry** - to reduce the lack of credit information.
- **Control of pension funds** - to avoid auctions of the contributions of citizens.
- **Adapt financial products to local needs** - observation of behavioral trends of groups, monitoring and analysis of client data in order to better define instruments/products for the market.

Main monetary policy instruments:

discount rate, lending facility absorption, ease of liquidity provision, open market operations, required reserves and interventions in foreign exchange market.

Supervising Entity: National Bank of Angola

BNA

24 commercial banks

Economic Situation

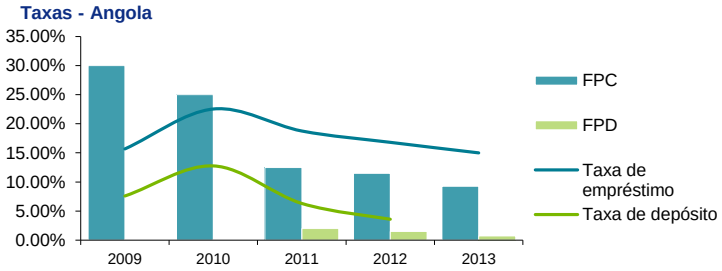
- It is estimated that in 2013 GDP has grown 7.43% in real terms, representing an increase of 25.2 percentage points between 2012 and 2013.
- This growth is the result of the favorable performance of the non-oil sector which grew 11.54% in real terms. Oil GDP, in turn, diminished -0.33%.
- In the evolution of non-oil GDP the performance of the agricultural sector stands out with an estimated growth of 47.61%, the Diamonds and Others secto saw an increase of 0.33% in 2012 to 6.56% in 2013 and the Energy sector expanded to 22,4% in 2013, from the 10.4% recorded in 2012.
-

Evolution of Monetary Policy

- In 1992 the Government made arrangements for the privatization of state enterprises. There was a lack of control of the budget deficit which led to a rapid growth in money supply.
- Inflation reached levels over 1800% in 1993. In 1995 it surpassed 3700%, which is considered the peak in the 1991-2002 period. The BNA adopted a target for the growth of the monetary base and made use of instruments to control liquidity in the economy, in particular of the discount rate, the requird reserves, the issuance of central bank securities and of interventions in the foreign exchange market.
- The inflation rate decreased to 76.6% in 2003. This decrease meant that the monetary policy in force continued to have the monetary base as an operational tool for achieving the ultimate objective of the BNA: stabilization of the national currency and reduction of inflation to levels considered moderate.

Current Monetary Policy

In view of the development of the country monetary policy has been conducted with the main objectives: the stability of the national financial system and control of the general price level. The BNA adopted an operational framework for interest rate targets and has used a monetary policy that in 2013 reduced, (i) three times the reference rates, (ii) the discount rate, which now corresponds to the marginal lending facility rate and (iii) the required reserves coefficient or deposits in national currency of 20% to 15%, remaining aligned with the foreign currency coefficient.



Fonte: Banco Nacional de Angola

Measures implemented at present	The sale on the market by BNA of foreign currency resulting from oil taxes is one of the conditions necessary for a proper execution of the State Budget (OGE) and for meeting the demand for foreign currency for economic activities. That is why foreign currency is supplied, in order to ensure that the nominal exchange rate depreciates in a controlled manner and attains desirable levels. This action aims at avoiding inflationary pressures and the continued appreciation of the real exchange rate, which could reduce the competitiveness of an industry that is still developing. Since 2011 the BNA has made a smooth transition to an inflation targeting framework that requires progress on three fronts (BNA, 2014): ■ The process of "de-dollarization" of the economy has to follow its course. This will minimize the currency mismatch in the balance sheets of the banks and in the long trun will allow for greater exchange rate flexibility. ■ The interest rate on Treasury bonds must be determined by the market by submitting offers in primary auctions. The "de-dollarization" continues and the definition of market interest rates will contribute to the further development of the financial sector and the increased supply of assets denominated in local currency. ■ The BNA and the National Statistics Institute (INE) will continue to develop rigorous economic indicators in order to supply the authorities with accurate and more timely data for decision making.
Alternative MSME financing sources	Wit a view to financing MSMEs: ■ Some banks provide loans free of bank fees, without a minimum deposit and with informal guarantees (e.g. ownership of assets), and with constant contact with loan managers. ■ The National Institute of Support to Small and Medium Enterprises (INAPEM) was created, a public institution under the Ministry of Economy, which is responsible for implementing the policies and strategies for business capacity building and training, which together with the "Angola invests" program aims at providing subsidized credit lines and mechanism of public guarantees to MSMEs, and their certification.
Credit to the agricultural sector	The Angolan authorities have been promoting a set of policies and instruments for the creation of an enabling environment for growth and development, which encourages economic recovery by creating financial incentives for the agricultural sector: ■ The "Agricultural Credit" Campaign is an Angolan government program taimed at supporting agriculture. The project involves the Banks: Poupança e Crédito Bancário (BPC), Banco de Comércio e Indústria, Banco Sol and the Banco Africano de Investimento para Micro-Finanças ■ The Development Bank of Angola, offers financing to agricultural credit that may have a maturity period up to eight years with a grace period of up to three years and a 6.7% annual interest rate.

Main monetary policy instruments: repo rate, open market operations, required reserves, moral persuasion

Supervisory Entity:
South African Reserve Bank (SARB)

73 institutions: 16 commercial banks, 3 investment banks, 13 foreign controlled banks and 41 branches of foreign banks.

Economic Situation

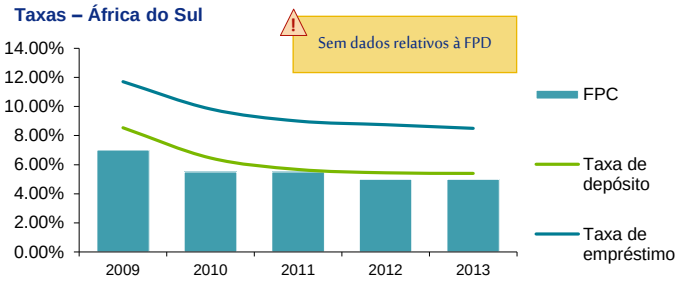
- The prospects for economic growth deteriorated due to the prolonged strike in the mining and manufacturing sectors.
- The economy contracted in the first quarter of 2014. Inflation stood at the reference level, driven mainly by the exchange rate depreciation and rising prices of food and gasoline

Evolution of Monetary Policy

- From 1967 to 1980, the Central Bank implemented a series of direct monetary policy instruments such as the deposit rate and exchange controls in order to control inflationary pressures. In 1980 started a policy geared towards the market. In this system, interest rates had a minor role as a corrective instrument.
- In 1986, the SARB started to align its policies with the evolution of the markets, rather than trying to force the markets into a predetermined direction. More emphasis was given to adjustments of interest rates, rather than direct restrictions of lending. Monetary targets began to be used.
- From the mid-90s onwards, the adopted monetary policy was an inflation targeting regime. This was managed by the repo rate as a way to control the level of liquidity in the market.

Current Monetary Policy

South Africa formally introduced a monetary policy guided by inflation targets in February 2000. This policy was specified as a range or band achieving an average growth rate of consumer prices. South Africa operates a floating exchange rate system, but when necessary the SARB intervenes in the foreign exchange market in order to control the exchange rate and the level of foreign currency reserves in order to minimize the negative impact of excess short-term capital flows and currency volatility.



Fonte: South African Reserve Bank

Measures implemented at present	The Monetary Policy Committee decided to continue on the path of gradual normalization and increase the repo rate. Given the expected path of inflation, the real repo rate remains slightly negative and well below the long-term neutral level. The SARB continues to opt for a monetary policy of inflation targeting because it argues that this approach: ■ Keeps the public informed about future inflation trends; ■ Increases the transparency of monetary policy; ■ Improves accountability of the monetary authorities; ■ Increases the stability of nominal interest rates; ■ Reduces inflation expectations redirecting them for the future; ■ Provides stability in the value of money, which increases growth prospects.
Alternative MSME financing sources	As an alternative financing form in South Africa: ■ There is a widespread a savings scheme between family / friends for small investments: the Stokvels. Members make a regular contribution from which each member at the appropriate time and in a rotation system, receives the full value of the contribution. ■ In the case of bank loans and long-term financing, the amount available for the entrepreneur is limited by the security hecan offer against the loan. At present, South Africa has only 13 banks operating in the MSMEs sector. ■ Private equity investments are made based on two main criteria: first, the potential of the candidates' business plan and, secondly, the competencies and skills of the entrepreneur in business management. Associations such as the National Empowerment Fund and the Small Enterprise Finance Agency, usually provide support and training to small and medium entrepreneurs. ■ Aso used are government grants through the Department of Trade and Industry (DTI), where one can explore a number of financing options, incentives and all of its qualifying criteria for MSMEs.
Credit to the agricultural sector	■ The Land Bank is the implementing leading institution with regard to agricultural financing. Its customers are cooperatives, commodity organizations and private farmers. It has a successful track record of lending to commercial farmers. – Farmers receive more substantial loans, based on payment history. ■ There are funding programs such as the KwaZulu Finance Corporation, Agriwane and Transkei Agrarian Development that provide a set of favorable options for the financing of this sector.

Main instruments of monetary policy: open market operations, interbank transactions in foreign currency, repo rate, discount policy, required reserves and moral persuasion.

Supervisory Entity: Bank of Tanzania **BoT**

56 institutions: 34 national commercial banks, 21 financing institutions and 1 development bank

Economic Situation

- In early 2014, GDP growth was driven by the strong performance of the communication, financial intermediation, construction, wholesale and retail sectors, and manufacturing activities.
- In June 2014, inflation reached 6.4%, compared to 6.5% in May 2014, owing to the decline of food and non-alcoholic beverages prices.

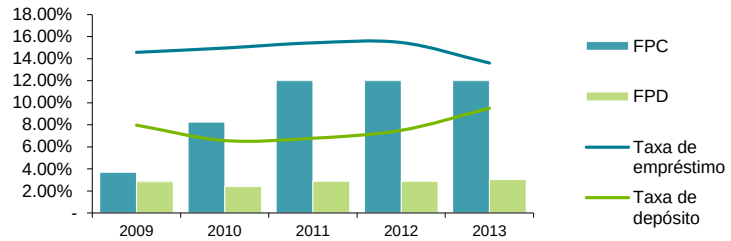
Evolution of Monetary Policy

- After independence in 1960, the Central Bank acted as the socialist government agent in mobilizing financial resources for investment in the public sector (education, health, business, infrastructure, etc.). This period was largely characterized by the use of direct monetary policy instruments:
  - The Annual Financing and Credit Plan (LACP), supported by a system of administered interest rates;
  - The Exchange Plan (FEP) is designed to control the use of foreign currency in accordance with national priorities.
- Since 1990 there have been a number of reforms in the economic and financial sector and therefore the BoT started to adopt a formulation and implementation system of a monetary policy aimed at stabilizing prices. The Central Bank opted to make use of indirect monetary policy instruments to ensure maximum efficiency in regulating the money supply. The BoT supervises the amount of money in the economy through monetary base control.

Supervisory Entity:

In 2013 the Tanzanian government implemented a restrictive monetary policy. This policy helped to reduce inflation which, however, resulted in increased cost of credit and imposed a higher burden on borrowers, which in turn had a negative impact on the expansion of the real economy.

Fees - Tanzânia



Fonte: Bank of Tanzania

Measures implemented at present

The monetary policy continues to aim at ensurnig that the appropriate level of liquidity in the economy is maintained, in order to contain inflation. However, the BoT intends to reform and modernize the way it conducts monetary policy through:

- Replacing the current system of monetary targets (quantity) by a system of interest rates targets - Central Bank rate (price).

This will be done in phases to ensure a smooth transition, starting with the strengthening of the financial system so that it becomes more integrated, competitive and flexible to price changes.

- Self training to develop skills necessary for macroeconomic modeling and forecasting.
- The BoT will continue to increase transparency and the effectiveness of its monetary policy instruments for the duration of the current system of monetary targets in order to strengthen the transmission mechanism. The Bank will continue to be cautious in monitoring risks.

Alternative MSME financing sources

In Tanzania some banks developed two credit products for MSMEs: a loan for working capital and an investment loan with the following characteristics:

- Interest rates are charged on the outstanding balance :
  - for the loan for working capital - the minimum repayment term is 3 months and the maximum is 12 months;
  - for concerning the investment loan, the minimum repayment term is 12 months and maximum is 60 months;
- Training of bank employees;
- Recruitment of new staff dealing specifically with the MSMEs (all recruited staff had to undergo intensive training);
- Under the MSME regime, banks began to expand the range of acceptable collateral to include non-traditional collateral such as Residential License, cars and used machinery
- Resources to savings associations and cooperatives (SACCOS).

Credit to the agricultural sector

A total of 56 national financial institutions are currently operating in Tanzania, the largest number in the East African region. The agricultural sector (considered the backbone of the national economy) is responsible for more than 25% of GDP, more than 27% of export earnings and 80% of the absorption of jobs.

Associação Moçambicana de Bancos – AMB

BancaBC

Banco Africano de Desenvolvimento – BAD

Banco Comercial e de Investimentos – BCI

Banco de Moçambique – BdM

Banco Mundial

Banco Nacional de Investimentos - BNI

Banco Único

Banco Terra

Barclays Bank Mozambique

Confederação das Associações Económicas de Moçambique – CTA

Confederação das Associações Económicas de Moçambique – CTA: Pelouro de Agronegócio

Centro de Promoção de Investimentos - CPI

Department for International Development - DFID / DAI

Deutsh Gesellschaft für Internationale Zusammenarbeit – GIZ GmbH

Fundo para Ambiente de Negócios - FAN

GAPI Sociedade de Investimentos

International Finance Corporation Mozambique - IFC

International Monetary Fund Mozambique - IMF

Instituto para a Promoção das Pequenas e Médias Empresas – IPEME

Letshego

Millennium BIM – MBIM

Ministério das Finanças

Moza Banco

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