



Protocol on Finance and Investment Baseline Study: Mozambique Country Report

August 2011



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A report reflecting the state of progress of implementation of the Protocol on Finance and Investment in SADC

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LIST OF ABBREVIATIONS

AADFI	African Association of Development Finance Institutions
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Autoridade Tributária de Moçambique (Mozambique Revenue Authority)
BdM	Banco de Moçambique (Bank of Mozambique)
BoP	Balance of Payments
BVM	Bolsa de Valores de Maputo (Maputo Stock Exchange)
CCBG	Committee of Central Bank Governors
CEPAGRI	Centro para Promoção de Agricultura (Agriculture Promotion Agency)
CISNA	Committee on Insurance, Securities and Non-Banking Financial Authorities
COMESA	Common Market for Eastern and Southern Africa
CoSSE	Committee on SADC Stock Exchanges
CPI	Centro de Promoção de Investimento (Investment Promotion Centre)
CSTO	Committee of Senior Treasury Officials
DFI	Development Finance Institution
DFRC	Development Finance Resource Centre
DVP	Delivery Versus Payment
ESAAMLG	Eastern and Southern African Anti-Money Laundering Group
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
FSAP	Financial Sector Assessment Program
FSTAP	Financial Sector Technical Assistance Project
GAPI	Small Investment Promotion Agency
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
IPA	Investment Promotion Agency
IPEX	Instituto de Promoção de Exportações (Export Promotion Agency)
IPO	Initial Public Offering
ISSM	Instituto de Supervisão de Seguros de Moçambique (Mozambican Institute of Insurance Supervision)
JSE	Johannesburg Stock Exchange
MF	Ministry of Finance
MoU	Memorandum of Understanding
MPD	Ministry of Planning and Development
QIS	Quantitative Impact Studies
PPP	Public Private Partnership

RTGS	Real Time Gross Settlement System
SADC	Southern African Development Community
SMME	Small, Micro and Medium Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIFI	Directorate of Trade, Industry, Finance and Investment
VAT	Value Added Tax

1. CONTEXT

As a relatively active member of Southern African Development Community (SADC), Mozambique was **one of the first countries to ratify the Protocol for Finance and Investment (FIP)**. Regional economic integration is consistent with national interest, especially considering that Mozambique maintains vibrant economic and investment ties with its neighbours. Key factors underlining this include Mozambique's shared borders with six memberstates, a strategic position providing transport services to landlocked countries, as well as proximity to the regional growth hub of Gauteng in South Africa. This is reinforced by deep political ties to other SADC members that were forged in both its war for independence and the subsequent destabilization period from 1975 to 1990.

Mozambique has placed regional integration within SADC at the centre of its foreign affairs policy as evidenced by its decision to leave Common Market for Eastern and Southern Africa (COMESA) in 1995. With respect to FIP in particular, a SADC mission to Mozambique in 2009 verified that an internal coordinating structure has been established and is functioning.¹ At the time, Mozambique committed to develop a draft plan for FIP based on an in-depth needs assessment, including an approach for a future implementation roadmap.

One major finding in this report was limited integration and poor coordination with the private sector. Other factors that potentially undermine Mozambique's participation in regional endeavours include difficulties in adhering to Anti-Money Laundering (AML) and smuggling measures due to porous borders and exposure to drug trafficking.

Mozambique is often hailed as a model post-conflict nation due to the political stability displayed since the end of the 'war of destabilization'. Although the floods of 2000 severely disrupted economic growth, the recovery of subsistence agriculture, which represents over a quarter of Gross Domestic Product (GDP), and the success of flagship 'mega-projects' have converted Mozambique into one of Africa's best performing and most promising economies. Indeed, GDP growth was estimated to be 6.7%, 6.3% and 6.5% in 2008, 2009 and 2010 respectively.²

Significant gains have been made in the reduction of absolute poverty as well as in improvements in telecommunications, roads and ports. Mozambique is privileged to offer diversified opportunities across key sectors, including vast untapped agricultural and fishing resources, tourism and the potential to satisfy regional electricity demand thanks to abundant natural gas, hydroelectric resources and multibillion dollar coal reserves. In addition, positive growth has been registered on the back of the construction of the Maputo and Beira transport corridors.

Despite a lack of depth in the financial sector, banks have reported high profitability and return on equity margins, whilst the construction and service industries have been undergoing a

¹SADC, 2009.

² Data provided to the author by the Ministry of Finance.

robust expansion. Although manufacturing and value added products remain negligible, Mozambique has steadily been increasing its agricultural and raw material export volumes.

The labour force, however, remains undersized, as approximately 70% of the population still reside in rural areas. The private sector is still fragile in a mixed economy that still bears a long shadow of state intervention, whilst rigid labour laws continue to complicate the business environment. A poor tax base means that annual transfers and direct budget support from donors provide crucial financial lifelines. Although relatively isolated from the global financial crisis in 2009, Mozambique experienced a deterioration of the Balance of Payments (BoP) in 2010, falling export volumes and a donor boycott following the 2009 presidential elections. These shocks led to a depreciation of the exchange rate in 2010 which stoked a sharp jump in inflation and contributed to food riots in September 2010.

2. STATUS OF FIP IMPLEMENTATION

2.1. STATUS OF FIP RATIFICATION

Mozambique signed the FIP on 18 August 2006, and deposited instruments of ratification with the SADC Secretariat on 6 June 2008.

2.2. FIP STRUCTURES

Implementation and coordination structures at country level are characterized by a *National Committee for FIP Implementation, led by the Ministry of Finance (MF) in addition to participation from the Bank of Mozambique (BdM), the Ministry of Planning and Development, the Mozambican Revenue Authority, the Maputo Stock Exchange, the General Insurance Inspection Unit, and the private sector.* This committee was formed before FIP entered into force, having first met in 2009 and again in December 2010. Not only is it responsible for delegating Mozambique's members to the Committee of Senior Treasury Officials (CSTO), but it is also charged with monitoring the progress of in-country committees and articulating national needs in the integration process. At a broader level, this Committee reports to the National Directorate for SADC Affairs within the Ministry of Foreign Affairs and Cooperation, acting more as a secretariat than a coordinating body. *The National Committee for FIP Implementation is responsible for coordinating with SADC itself but lacks the institutional memory and staff required to perform the task.*

Beyond the National Committee, two other coordinating poles exist that are linked to the Committee of Central Bank Governors (CCBG), consisting of senior decision makers and mid-level officials within the Foreign Department's International Cooperation Service, which is the central coordinating body within the BdM. All decisions, tasks and reports that circulate between committees pertaining to the operations of the BdM are required to pass the Foreign Department. However, this process is not fully functional and there are some challenges ensuring coordination. Mozambique is the chair of the subcommittee for Annex 7 (Cooperation on Information and Communications Technology).

2.2.1. ANNEX 1: COOPERATION IN INVESTMENT

Capital Flows: Over the past decade, Mozambique has experienced a significant increase in Foreign Direct Investment (FDI) volumes although these vary considerably by year. For example, FDI was registered at \$163,523,197 in 2006 but then surged to \$5,698,931,571 in 2007 with mining resources alone accounting for 90% of this increase. However, with the financial crisis FDI experienced a precipitous drop in 2008 to \$365,671,964. Subsequent years have not yet managed to recover pre-crisis levels with only \$1,776,754,372 registered in 2009. Data available so far for 2010 indicates that FDI was valued at \$578,809,408 although, importantly, the 2010 data omitted the energy and mineral resource sectors.³

Doing Business: In particular, BHP Billiton's flagship Mozal aluminium project in 1998 demonstrated that Mozambique is a serious and reliable investment destination. In the past ten years multi-billion dollar mega-projects have followed in coal, base and industrial metals, natural gas, transport and logistics, tourism and agriculture. A shift in its ranking in the 2011 Doing Business Report from 130th to 126th position suggests, however, that investment conditions have improved only slightly.⁴ Cross-border examples such as Mozal and the Sasol gas pipeline indicate that the significant increase in investment cooperation has been led by the private sector and is not a result of the FIP itself.

Data Integrity: It is of concern that the Centro de Promoção de Investimento (CPI – Investment Promotion Centre) only captures data on approved investments yet does not monitor the progress of approved FDI. As a result, it is difficult to assess and evaluate FDI due to a lack of information on project status and the values committed on an annual basis. Hence, it is difficult to measure FDI success in Mozambique since the CPI data only captures intended investment whilst realised investment is captured in exchange control by the Foreign Department within the BdM. There is little integration between these two data sources.

Legal & Regulatory Framework: Following the decision to adopt a market economy in the early 1990s, Mozambique drafted the 1993 Investment Law (3/93) which continues to serve as its core legal reference. The 1993 law explicitly protects foreign investors against nationalisation and provides minimum guarantees such as private property protection and legal recourse for arbitration. Subsequent decrees and revisions to this law enabled investors to repatriate profits and dividends in addition to freeing all restrictions on the borrowing and payment of interest abroad. There are also specific legal regimes pertaining to a variety of sectors. The Mining Code, for instance, goes so far as to oblige public authorities to maintain databases on prospecting and mining licenses. As a result, it can be argued that the basic conditions exist for an investment friendly policy, legal and regulatory framework.

Harmonisation: The stakeholders argued, however, that there is a limited degree of harmonisation between the Mozambican and the regional investment framework. A reference was made to a survey of national investment policies completed in 2009/2010 across the SADC region which concluded that each member state should continue to concentrate on its

³ Approved project data provided to the author by CPI.

⁴ World Bank, 2010(a).

own opportunities and investors. It was emphasized that Mozambique is still testing and implementing its investment framework and is not yet ready to adopt a multi-lateral investment policy commitment.

Investment Promotion Agencies (IPAs): The CPI serves as Mozambique's one-stop-shop dedicated to the private sector. The CPI is an independent institution with its own budget although its remit falls under the Minister of Planning and Development, who nominates the CPI Director. Although the CPI is Mozambique's only IPA, there is a degree of overlap with the activities of specific government agencies such as Instituto de Promoção de Exportações (IPEX) (an export promotion agency within the Ministry of Industry and Trade), and Centro para Promoção de Agricultura (CEPAGRI) (a commercial agriculture promotion agency within the Ministry of Agriculture).

Cooperation: The CPI was unaware of any regional IPA forum, having emphasized that its coordination activities are limited to its own regional office in South Africa and participation in regional forums led by the private sector. This was underlined as a significant gap in FIP implementation and the CPI expressed its interest to join and participate in a regional IPA forum. Its chief cooperation strategy has been to sign bilateral investment agreements which have been concluded with South Africa, Zimbabwe, and Mauritius. Negotiations are currently underway with Angola. In addition, the CPI has signed Memoranda of Understanding (MoUs) with sub-national IPAs in the region (such as those with Cape Town, Mpumalanga and Swaziland).

Coordination: It appears as if a chief constraint to improving the implementation of FIP within Mozambique is the fragmented nature of investment coordination between the Ministry of Planning and Development (MPD), the MF and the Ministry of Industry and Trade. Currently, the CPI attends regional FIP meetings on behalf of the MPD, which is the public sector body with the mandate to coordinate all investment activities. However, the MPD itself (and in particular its own National Directorate for Investment and Cooperation) maintains an arms-length distance from the FIP committee. *There is thus a disjuncture of public and donor investment activities with the FIP process.*

2.2.2. ANNEX 2: MACROECONOMIC CONVERGENCE

Core Indicators: Mozambican macroeconomic data illustrates progress in maintaining its aggregate figures in accordance with FIP levels. The principal concern is volatility in inflation, seeing as inflation surged from 3.3% in 2009, well below the 9.5% recommended prudential level, to average out at 12.7% in 2010.⁵ This process is traced to vulnerability in the BoP, especially as a result of exogenous shocks to the capital and financial accounts, falling FDI and a drop in donor disbursements.

In addition, there was a slight slowdown in exports on the current account side due to lagged effects of the global financial crisis. Such BoP difficulties led to a rapid depreciation in the exchange rate in the latter half of 2010 which in turn caused inflation to break through the 9.5%

⁵ Data provided to the author by the Ministry of Finance.

figure. The budget deficit ratio has crept towards the recommended ceiling of 5% in 2010 although publicly guaranteed debt remains under control.

Database: On a positive note, there has been strong traction gained at the committee level on the importance of the SADC Macroeconomic Statistical Database with a firm understanding in both the MF and the BdM.⁶ Mozambique has registered regular contributions to the database and the mechanism is running smoothly. The South African Reserve Bank, which hosts the database, sends a reminder to the BdM 30 days before the update deadline. After the window is opened and the information is populated, the BdM retain the data to produce an annual statistical database report, which is then used to inform quarterly reports of the Ministry of Finance, the National Statistics Institute as well as the annual report of the BdM.

Peer Review Mechanism: Mozambique attributes a lack of progress in this area to the fact that the process has still not been finalised at the regional level. As such, Mozambique is waiting on the outcome of the September 2011 meeting before it approves the Peer Review Mechanism. However, the process of choosing a national representative has already begun, with the individual probably to be sourced from the MF. Finally, there is a strong understanding of the intended outcomes of this regional surveillance procedure, with the unanimous opinion that it will be complementary with already operational institutional structures.

Coordination: The Directorate for Economic Integration in the Ministry of Finance, with participation from the Department of Statistics and Economic Studies in the BdM, leads macroeconomic convergence. As key individuals in these institutions also play a leading role in the National FIP Implementation Committee, there is strong coordination both domestically and with the CSTO. There is also feedback with both the National Statistics Institute and the MPD.

2.2.3. ANNEX 3: COOPERATION IN TAXATION AND RELATED MATTERS

Harmonisation of Indirect Taxes: The Autoridade Tributária de Moçambique (ATM) (Mozambican Revenue Authority) emphasized that Mozambique initiated a reform process of the fiscal system nearly 10 years ago in 2002. The same principles were discussed during the Livingstone seminar in 2010 confirming the progress that Mozambique has made when formulating tax policy. Moreover, it argued that the legal framework has been aligned with the basic principles that gained consensus at the Livingstone seminar. In the first place, indirect tax treatment is in accordance with the orientations established by the 2010 seminar on tax coordination in Livingstone with respect to converging on a unique value-added tax (VAT) tariff and excise duties throughout the region. For example, Mozambique's application of a consistent VAT rate based on the final destination of goods and services for all SADC members was endorsed as a key principle at the Livingstone seminar.

Cooperation: Mozambique participated in the workshop to finalise the model taxation agreements and the result of this workshop was reported to the Heads of Tax meeting in 2010, at which Mozambique was also present. Despite the fact that Mozambique has not signed any formal Exchange of Information Agreement, there is no objection to do so when it approved at

⁶ A senior technician within the Department of Economic Studies and Statistics in the BdM is responsible for updating the database every 6 months.

regional level, as there is such a provision for information exchange in the DTAA's currently signed between Mozambique and other peer countries.

Double Taxation Agreements: Mozambique is focussing on establishing double taxation agreements to set a precedent for cooperation with each member state, using the SADC Double Taxation Avoidance Agreements (DTAA) models as its point of reference. The ATM uses the DTAA model for the negotiation of double taxation agreements despite the model not having been formally approved in Mozambique, principally due to delays in the ratification of the FIP. Bilateral agreements on double taxation have been signed with South Africa (which entered into force in 2009), Botswana (yet to enter into force) and Mauritius (in force since 1997). Further proposals have been drafted with Seychelles, Tanzania, Zimbabwe and Zambia.

SADC Tax Database: The ATM is now on the verge of making its first remote upload, after admittedly lagging in this process. These delays were attributed to the slow pace of regional process as well as communication problems between members. Further, the ATM lacked a representative at the first training course on remote updating although it assures that it is now up to date. All of the required information on separate tax lines (VAT, excise duties, applicable rates and conditions, legislation, fiscal statistics and mutual agreements) is now collated and prepared. This data requires the approval of the Fiscal Board, after which the relevant technician will request the password from SADC in order to update the database.

Fiscal Incentives: Incentives can only be granted by law in Mozambique according to the most recent revision to the Fiscal Incentive Code concluded in 2009. Once the regional guidelines on fiscal incentives have finally been approved, Mozambique will embark on the legal process of altering its legal code to be aligned with the regionally approved guidelines. This code legalises the application of various incentives which appear in Section 2 (Article 4) of Annex 3, such as tax privileged export processing zones and tax holidays. The ATM also insisted that it abides to the spirit of Section 3 (Article 4) on avoiding harmful tax competition in the FIP, although it admits that there are some cases where there is not strict compliance with each item.

The justification for this is that it is national policy not to negotiate incentives with investors on a case-by-case basis as the Investment Law is subjected to the Fiscal Incentives Code, which grants incentives by law only and never by discretion. Regarding item (iv) of Section 3(a), therefore, investors are subjected to uniform treatment whereby the application of incentives depends on the location, sector and value of the investment but never on nationality. Item (vi) of Section 3(a) does not apply either since to qualify for a tax incentive companies are required to be established in Mozambique. The implementation of the various benefits in Mozambique is inconsistent with item (i) of Section 3(a) in the sense that the Investment Law allows for generic benefits such as exemptions on importation duties and VAT on Class "K" equipment under the Customs Tariff Schedule. Mozambique continues to offer low effective rates on income tax and goods for limited periods which will need to be revised in accordance with the Regional Incentives Guidelines when these are approved by the Member States.

Mozambican representatives did note that the issue of fiscal incentives under Annex 3 is a particular area of inconsistency with Annex 1 (Investment) as fiscal incentives are rightfully

under the control and mandate of national development objectives which may not be aligned to the various SADC FIP guidelines and frameworks. It was stressed here that FIP domestication is an ongoing process which has still not reached a consensus in this regard and that, until this is the case, its implementation will have to respect the existing legal systems and investment policies of sovereign states.

Disputes: To date, Mozambique has not registered any complaint or dispute over its taxation policy, nor has there ever been any reason to refer to SADC. For the time being dispute resolution mechanisms are based on the integrity of each bilateral agreement that is signed with other member states. Such agreements contain provisions that guide signatory states on how to proceed in case of disputes. In the case of double taxation agreements, the ATM admitted that there have been small problems with its counter parties but these have been limited to operational procedures and have never reached a serious stage.

Fiscal Analysis: One notable challenge is that Mozambique is in urgent need of a fiscal cost-benefit analysis framework to improve both its revenue forecasting capabilities, fiscal scenario planning and contract negotiation. At the present moment, there is no in-house cost-benefit analysis employed whilst revenue forecasting remains primitive. Mozambique is at a critical moment where such frameworks are required in order to increase revenue generated from significant FDI underway in coal reserves in the Tete Province.

Capacity Building: Finally, it can be concluded that FIP implementation has had a positive impact on the quality of training within the ATM due to a range of intensive courses, each of which attended by at least two ATM officials. There is also an internal training plan with activities throughout the year, including a language lab and a three month induction course for new customs recruits. Although the ATM is largely satisfied with the FIP training programmes, it emphasized that its chief shortcoming is the language factor as all training has been conducted in English. In the case of Eviews econometric training, for example, the technical terminology interfered with the desired learning outcomes.

Coordination: The ATM consults the private sector over any legislation changes and subcommittee outputs. The private sector is also invited to the Fiscal Board that meets twice a year. To improve coordination with domestic process and the regional subcommittee, the ATM decided to form 4 internal groups that correspond with regional working groups, namely:

- Indirect Taxation with participation from two technicians in the General Taxation Directorate,
- Fiscal Incentives with participation from the General Taxation Directorate and the Planning and Studies Division,
- Tax Agreements composed of Directors and senior technicians from the General Taxation Directorate and Negotiating Teams, and
- Data Bases with the participation of the Statistics and Regional Integration Division.

2.2.4. ANNEX 4: COOPERATION AND COORDINATION IN EXCHANGE CONTROL POLICIES

Currency Convertibility: The personnel designated to answer questions regarding currency convertibility were not available during the research process. Subsequent desktop research confirmed that the Metical is not convertible internationally.⁷

Cooperation: The BdM has signed a bilateral agreement with Zambia for the repatriation of notes, including an amendment that enables banknote conversion. The BdM has also finalized an agreement for the repatriation and conversion of notes with Malawi and is now only awaiting the official signing ceremony. Further, Mozambique has entered into a tripartite agreement with Malawi and Zambia which follows the same guidelines as their respective bilateral agreements. All agreements allow for conversion to be done in a third currency (which is almost always the Rand or US Dollar).

Current Account: An area of traction gained in this annex has been the liberalisation of the current account due to the 11/2009 revision of the Exchange Act, albeit with the caveat that the publication of the exchange control component was delayed until December 2010, postponing the date that this enters into force until 11th July 2011. Commercial banks have just only started implementing procedures whilst the BdM is establishing the enabling environment by registering guarantees and assisting banks with their online information systems. It is noteworthy that the Foreign Department requested training in information systems for the implementation of the current account in 2009 but has not received the assistance of SADC in implementing the new current account regime. BdM subsequently invited SACU to share its experience with Mozambique. Progress is therefore at a transitory stage with limited impact and cooperation. The regulation of foreign exchange law is in place and a system has been developed and implemented (Meticalnet) for the registration of foreign exchange by commercial banks.

Capital & Financial Accounts: The revision to the Exchange Act explicitly maintained controls on the capital and financial accounts. There is currently no roadmap to converge on this goal. Financial account movements, cross border loans and repatriation of funds are thus required to be authorised and registered by the BdM. Short term capital flows into the stock exchange, however, move freely due to special treatment granted to promote the Maputo Stock Exchange.

Cross Border Reporting: The exchange officials were unaware of any cross border reporting systems in place. However, it was added that all commercial banks are required to provide data on capital market movements and especially foreign loans, with any of the latter exceeding \$1million requiring approval and registration with the BdM. When probed on data sources, the officials referred to the BoP itself but were altogether unfamiliar with their own data registry methods.

⁷Banco de Moçambique.

Coordination: FIP exchange control coordination appears severely limited in Mozambique and it was somewhat of a challenge to extract sufficient and comprehensive information from those representatives available.

2.2.5. ANNEX 5: HARMONISATION OF LEGAL AND OPERATIONAL FRAMEWORKS

Model Central Bank Law: Mozambique is still in the process of adapting its legal framework to the minimum requirements of the Model Central Banking Law. This process is in its initial stages, currently consisting of the transposition of principles from the Model to the domestic Central Bank Law. The Legal Affairs Department of the BdM stressed that it will not approve the Model *per se* but will instead undertake a revision of their own laws using the Model as a reference. It was also volunteered that certain key principles are non-negotiable (for example, Central Bank independence) but this was qualified by adding that it will adopt only those elements of the Model that are deemed adequate for the Mozambican context. Traction has been gained in the sense that the legal framework already contains many of the basic principles of the Model Law.

- **Governance.** For instance, the domestic law allows for both a Governor and a Vice-Governor in its Board of Governors. The major divergence with the Model Law stems from the remaining five Deputy Managers which, contrary to the Model Law, hold executive powers and are an integral part of the day to day management of BdM. This was flagged as a key area where the BdM is required to revise its own law.
- **Monetary Policy Committee.** Further, the Mozambican Central Bank Law does not explicitly provide space for an organ charged with the sole responsibility of setting monetary policy. The BdM has circumvented this by designing a normative framework for a decision making body that performs exactly the same function as the Model Bank Law Monetary Policy Committee. This was also underlined as one of the areas for adoption within the Central Bank Law.
- **Decision Making Autonomy.** The Central Bank Law currently states that the BdM is responsible for pursuing a variety of monetary-related objectives, including maintaining the value of the currency. The BdM hopes to incorporate the explicit objective of price stability from the Model Law in its revision process to increase its operational independence.

Consistency: The Legal Affairs Department did not feel there are fundamental differences between the Model Central Bank Law and the current laws pertaining to individual banking, payments, stock exchange, non-bank financial institutions and exchange laws in Mozambique. This is because the Central Bank Law is considered the cornerstone piece of legislation to which all other operational components are subordinate and necessarily aligned. Based on this observation, it can be concluded that the current form of the Central Bank Law offers space for converging on the Model Central Bank Law principles in these operational areas.

- **Payments.** Mozambique has a National Payment Systems Legislation including the law and regulations. However, the payment system law will have to be adapted when the regional system goes live; fortunately, the technical nature of payments simplifies its alignment with the Model Central Bank Law. Current regulation governing the implementation of the Real Time Gross Settlements (RTGS) requires only technical changes to the Mozambican Central Bank Law but the underlying principles are consistent.
- **Banking Supervision.** In addition, the legal representative in the Banking Supervision Department argued that they expect big changes in the 2004 Banking Act for it to become aligned with the Regional Banking Act. For example, the liquidation of credit institutions currently falls under a different piece of legislation and will have to be incorporated into a revised Banking Act, consistent with the Central Bank Law on banking supervision.
- **Exchange Control.** As the current form of the Exchange restricts the capital and financial accounts, whatever decision the Model Central Bank Law takes with respect to achieving a regional currency will have to be reflected in significant changes to the Exchange Act, particularly with respect to currency convertibility.

Revision: Mozambique has recently embarked on a process of revision of its Central Bank Law. A major series of actions has been established in a program which is currently at the initial stage of consultations with the MF. This includes the fundamental motivation behind the revision (taking into account macroeconomic trends and imperatives, regional integration, International Monetary Fund (IMF) recommendations, recent trends in Central Banks, etc.) which will be used to decide on the exact approach to take. No revisions have yet been written.

Common Central Bank Law: Interviewees stated they were in no condition to discuss a project of Common Central Bank nor were they aware of any specific roadmap towards the creation of its own law. This is regarded as an objective and is entirely dependent on the current process of harmonisation.

Coordination: The Legal Affairs Department ensures the internal consistency of revisions to annex laws with both the national legal framework and the Central Bank Model Law. It advises the accordance of all drafts of Central Bank Law to the domestic legal system before submitting to the BdM board. The BdM regularly sends at least an economist and lawyer to meetings with the regional legal secretariat in Pretoria.

2.2.6. ANNEX 6: COOPERATION IN PAYMENT, CLEARING AND SETTLEMENT SYSTEMS

Real Time Gross Settlement System: Mozambique has registered considerable progress in approaching the objective of a regionally linked real time gross settlement system (RTGS) system. This is largely thanks to BdM having closely followed the recommendations of the annual payments committee meeting in South Africa. A major product was the design and development of a local RTGS system by BdM that was introduced into the banking sector by means of a pilot project. The BdM has encouraged all commercial banks to join the RTGS

system thanks to its own dedicated business and IT teams. These teams invite banks to see the system, register expressions of interest and accompany them in the conversion and testing of their platforms.

Banking System & Coordination: The pilot was successfully completed with two major commercial banks⁸ having operated on the RTGS system for over six months. Two other banks are in the final preparation stages before joining the system.⁹ Once all banks are adhering to the pilot, the BdM will then institute the necessary regulation and minimum transaction value criteria (100,000 Meticais). The BoM will then apply norms established by the pilot system across the entire financial system. Another positive note is that by following the recommendations from the SADC Banking Association, the BdM nominated an *In Country Payment Leader* from a leading bank to lead private sector implementation. The involvement of the private sector has contributed to strong participation by Mozambique across all payment subcommittees in credit cards, ATMs, cheques, bank notes and Delivery Versus Payments (DVPs) (the last of which is led by the *In Country Payment Leader*).

Regional Clearing Systems: An automatic electronic clearing system has been operational since 2004 with electronic transactions cleared between all members of the Mozambican Banking Association. BdM is currently improving the system by decreasing clearing periods, introducing direct debit systems and considering imposing limits on cheques due to payment risks. Importantly, the BdM is also advancing proposals for agreements between similar Mozambican and South African companies to guarantee that nationals of either country are applied a universal tariff in credit card and ATM transactions. This requires building a common platform instead of letting VISA process the transactions via SWIFT (Society for Worldwide Interbank Financial Telecommunication). However, nothing has been implemented yet in this regard. Standard Bank, for example, still has to use SWIFT for its money market operations between Mozambique and South Africa. Consequently, impact here has been limited although there is considerable potential for cooperation in this area.

International Principles & Best Practices: In 2009 Mozambique conducted a self-assessment of its systemically important payment systems, yielding 99% compliance. However, this was limited to the clearing system as the RTGS system was only a pilot at the time. Future evaluations will in principle be performed on a yearly basis aligned with the Banking Supervision Department in the BdM. A national policy strategy has been formed which includes a highly detailed set of Basel consistent guidelines for the oversight of the banking and financial institution sector. These guidelines will be used for compliance as well as for onsite and offsite inspections.

Cross Border Payments: Although a strategy has been drafted to link cross border payments, it is yet to be approved as it depends on progress made at the CCBG level. In particular, Mozambique is waiting on the outcome of a simulation done within CMA (plus Mauritius and

⁸Standard Bank and Millennium BIM.

⁹ Namely, the Mauritius Commercial Bank, which is in the process of creating security access for the platform, and First National Bank, which has some final procedures to resolve.

Zambia) to which it will adopt its strategy. At the market level, however, there is a significant blockage to progress in this area due a lack of collateral mechanisms between countries.

Comprehensive Risk Mitigation Strategy: FIP implementation has led to the design of a BdM strategy which focuses on the benefits of RTGS mechanisms for mitigating systemic risks. In particular, the strategy allows an inter-day credit window for banks that have liquidity problems whereby an agreement is signed that allows the BdM to monitor daily liquidity movements and intervene if necessary. If a bank falls below capital requirements and is in danger of not being able to pay another bank, the BdM then has permission to inject capital into the bank's books through a fully collateralized intraday credit.¹⁰ Although the strategy has not been approved, the service is available to the market but no bank has had to use it yet. The BdM argues that the strategy is comprehensive in that it is easy to implement for banks with minimal operational effort, free of charge and a quick means to ease a sudden liquidity constraint. However, the strategy does not provide for audits, which falls under the mandate of the Banking Supervision Department.

2.2.7. ANNEX 7: COOPERATION IN THE AREA OF INFORMATION AND COMMUNICATIONS TECHNOLOGY AMONGST CENTRAL BANKS

The Banco de Moçambique chairs the SADC Central Banks' Information Technology Forum which is currently leading several activities, including:

- The signing of an MoU between all Central Banks and the SADC Central Bank that allows Central Banks to conduct group sourcing such as the purchase of Microsoft goods and services;
- Joint venture software development for Central banks such as Bank Supervision Application (BSA); Time Series Analysis (TSA); Exchange control for CMA countries; a website for CCBG sub committees as well as the support of different CCBG subcommittees; and
- Common initiatives on capacity building in different ICT disciplines and governance measures to achieve a common understanding of the role of ICT in Central Bank operations and the financial sector in general.

Importantly, the BdM is driving a common understanding regarding data privacy to ensure that cross border financial business maintains data integrity and privacy. It is also lobbying for the installation of robust ICT infrastructure to connect Central Banks and financial sectors across the SADC region.

2.2.8. ANNEX 8: COOPERATION AND COORDINATION IN THE AREA OF BANKING REGULATORY AND SUPERVISORY MATTERS

Legal Framework: Mozambique last revised its Banking Act in 2004 but has been closely following developments on the Regional Banking Act. As it is not a member of the regional task

¹⁰ This comes in the form of government bonds equivalent to the value of the liquidity deficit in exchange for collateral claims on the banks assets.

force on the Regional Banking Act, its actions have been limited to providing its comments on the December 2010 draft. It is currently waiting to discuss this draft at the next committee meeting in Mauritius. The Banking Supervision Department indicated that there are substantial differences between their own Banking Act and the draft document, implying that they expect significant changes in the former for harmonization to occur. For example, the liquidation of credit institutions currently falls under a separate legal instrument to the 2004 Act and will thus need to be incorporated in the upcoming revision. The stakeholders could not comment on whether their own Central Bank Law would have to undergo alterations.

Basel Core Principles (BCP): When probed on the harmonization of Mozambican supervisory standards with international best practices, reference was made to the 2009 Financial Sector Assessment Programme (FSAP) evaluation which concluded that Mozambique is fully compliant with 17 of the 25 BCP. The subsequent recommendations of the FSTAP program have brought full compliance up to 19. Of the remaining six principles, four have registered partial compliance whilst only two have no degree of compliance.¹¹ In order to improve this evaluation, the BdM has embarked on a series of measures in abuse of financial services, banking resolution, contingency planning, stress tests and the supervision of interest rate, liquidity, market and operational risks to increase its compliance to 23 out of 25.¹² Further, Mozambique is targeting 2014 for Basel II compliance with four commercial banks already close to full compliance.

Self-Assessment: The BdM has not, however, completed comprehensive self-assessment exercises as it argued that this information already exists due to exercises at the Banking Supervision Committee level. That is, at the level of the steering committee each country evaluated its own measures as a basis for comparison. Based on the findings of this work, a non-formalised proposal was produced to converge on targets such as risk based supervision, Quantitative Impact Studies (QIS), International Financial Reporting Standards (IFRS) and risk soundness indicators. This, coupled with a yearly survey on regional commercial banks, has helped the formulation of a counter status report submitted to the CCBG. Mozambique has used this process to advance with CAMEL risk management which has prompted visits to Zimbabwe, Tanzania and Uganda to learn from their experiences.

Accounting & Auditing Standards: Encouragingly, Mozambique's accounting and auditing standards are increasingly consistent with international norms. IFRS standards were adopted for the entire banking system in 2008, which required an alteration in the legal framework. All banks are now reporting to the IFRS. At this stage, by law all financial institutions are obligated to be audited by independent third party institutions approved by the BdM. A decree also regulates the norms and practices of external auditors whereby commercial banks are required to present their auditing proposals to the BdM for approval. The MF in turn is responsible for the accreditation of all auditing institutions. Across the entire banking system, the 2004 Banking Law obliges commercial banks to have their own internal auditing departments. The BdM is now seeking to reinforce internal auditing by means of its guidelines on risk management and corporate governance. All onsite inspections and evaluations will therefore examine the

¹¹Interviews response; International Monetary Fund, 2010.

¹²International Monetary Fund, 2010; World Bank, 2010(b).

independence of auditing procedures, financial health, institutional design, comprehensive risk factors and CAPL/CAMEL management.

AML: FIP has not yet had any tangible impact on Anti-Money Laundering (AML) practices in Mozambique, as conformity with AML requirements is at its initial stages. In November 2009, Mozambique was evaluated and obtained a ranking by the East and Southern African Anti-Money Laundering Group (ESAAMLG). However, this report was only discussed in April 2011 in the CSTO and cannot be disclosed until it is endorsed by the ESAMLAG at its Annual General Meeting in September 2011. In the meantime, a proposal has also been presented to the Board of Governors for the implementation of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), although this has to await necessary legal revisions and the outcome of the ESAAMLG so as to fully implement all Finance Action Task Force (FATF) recommendations.

Coordination: The Banking Supervision Department of the BdM has an active participation in the regional task force on revising model banking law and regulations. In addition, it plays an active role in the Steering Committee for the Regional Committee for Banking Supervision.

2.2.9. ANNEX 9: COOPERATION IN RESPECT OF DEVELOPMENT FINANCE INSTITUTIONS

Regional Projects: There is a dearth of information in Mozambique regarding regional projects, with the most reliable source of information being aggregated data provided by the CPI. Data is unavailable on the value of funds available and which projects are at a bankable stage.

Gabinete de Consultoria e Apoi à Pequena Industria (GAPI): GAPI, a Public Private Partnership (PPP) acting as a small investment promotion agency,¹³ is Mozambique's only DFI, although it is legally registered in the banking sector as an investment fund with a focus on increasing the bankability of small, micro and medium enterprises (SMME) and promoting the organisation of decentralised banking services. Each one of its interventions can be considered as a PPP in its own right, including joint interventions in the agricultural value chain with private commercial banks, and the creation of micro-bank networks using mezzanine financing techniques with credit institutions. GAPI's sole interaction with SADC is through its membership of the Development Finance Resource Centre (DFRC). Beyond this area of cooperation there is no knowledge of FIP. The impact of FIP implementation is restricted to benefits that GAPI derives from access to technical assistance and the DFRC budget.

Capacity Building: Since 2010 there has been substantial traction gained in the training component of the DFRC, especially in human resources, governance and financial and project management. These have consisted of annual short term courses for senior technicians and managers ranging from one to two weeks. There is active cooperation as the DFRC first consults with GAPI's need requirements. GAPI assured that these training exercises have generated positive results in improved management practices. For example, financial directors

¹³ Ownership breakdown is as follows: 30% state, 40% private sector and 30% civil society organizations.

received training in risk methodologies which they are now integrating into their projects whilst mid-level staffs have been trained as managers for GAPIs national network of micro banks.

Credit Rating: There has never been an officially published credit rating of GAPI. Nevertheless, an evaluation was recently performed of GAPI as part of a pilot stage of DFI credit ratings by the African Association of Development Finance Institutions (AADFI).¹⁴ GAPI volunteered that its weakest attribute is a shrinking portion of shareholder capital as a percentage of total assets. In February 2011 GAPI received training in ratings methodology from the DFRC and AADFI, which forms part of a larger strategy for a peer review mechanism to monitor progress in this area.¹⁵

Insurance Guarantees: GAPI was unaware of any regional insurance guarantee system for both domestic and regional projects. However, reference was made to a project, external to SADC activities, led by GAPI to form a Mozambican Association of Mutual Guarantees in collaboration with the Portuguese Association of Mutual Guarantees.

PPPs: Mozambique is at a preliminary stage of organizing both the legal and institutional framework for PPPs. There is little awareness about the issue and a lack of consensus as to what the stance the government should take, complicated by a lack of a visibility from a fragile private sector. Stakeholders consulted from CPI, MF to GAPI were unaware which public sector institution is officially charged with leading PPPs in Mozambique, nor could anyone point to a legal instrument which accommodates them. There is no entity collecting data on such projects, with the best source being aggregated data of approved investment projects at the CPI or data derived from the BoP.

2.2.10. ANNEX 10: COOPERATION IN NON-BANKING FINANCIAL INSTITUTIONS AND SERVICES

2.2.10.1. INSURANCE AND PENSIONS

Accreditation: The Mozambican insurance and pension markets are at a nascent stage and hence not yet members of the International Organisation of Pension Supervisors (IOPS) or the International Association of Insurance Supervisors (IAIS).¹⁶ At this point in time it is focussing its efforts on the necessary legal and institutional prerequisites for membership. A major institutional step has been taken by establishing the Mozambican Institute for Insurance Supervision (ISSM). Previously an inspection body subordinate to the MF, it is now an autonomous institution under the auspices of the Minister of Finance. The ISSM is in the process of organising its governance structure, namely the approval of the organic law that will govern the institution, the designation of its leadership, and, crucially, the formation and

¹⁴This report will be released on the week of 13th-17th June 2011 but is for internal use for members of AADFI only.

¹⁵SADC, 2011.

¹⁶ The Mozambican insurance market consists of only 5 insurance companies and one reinsurance firm. Consumer awareness is a severe constraint with the most predominant product uptake being that of asset insurance. Pensions or life assurance is limited to compulsory registration of all workers and employers with the National Social Security System which is dominated by civil servants (CPI Brochure, 2011).

designation of its Board of Directors. Currently, only three members of this board have been identified by the Cabinet but the ISSM expects that the Board will be fully operational in 2012.

Legal & Supervisory Framework: The approval of the Insurance Code in December 2010, which entered into force in May 2011, was another key step in the evolution of the legal framework of Mozambican insurance. Importantly, in June 2011, the Cabinet is expected to approve a decree pertaining specifically to pensions. In the meantime, the ISSM has already begun to implement a series of international accounting standards pertaining to insurance and pensions so as to converge on the IOPS and IAIS standards along with other SADC countries. Given the sizeable differences across markets in the region, the ISSM is undertaking bilateral consultation in order to complete an analysis of existing complementarities and gaps. Mozambique has already completed a common concept study with South Africa and hopes that a CISNA-funded consultant will compile the remaining data on market differences.

Self-Assessment: In terms of the FIP commitment to continually assess the evolution of the market, the ISSM has gained traction by conducting surveys of the market which, in conjunction with end of year company financial statements, are used to examine the financial position of firms on an individual basis. This is then aggregated into an annual market report which is used for sector analysis, including comparisons between firms and indicators for future inspections. ISSM intends to increase the frequency to a bi-annual (and then quarterly) basis but has experienced difficulties due to companies not reporting on time. Importantly, the ISSM is now obliged by the legal framework to study both corporate governance measures as well as the type of products offered in the market with an aim to increase its product regulation. However, this has not been implemented yet as the legislation is only recently binding.

Information Exchange: ISSM indicated that their chief means of sharing data and documentation with other CISNA members is by email. To facilitate this area of cooperation ISSM has signed bilateral MoUs with Botswana, South Africa, Tanzania and Zimbabwe. Despite the ISSM having declared that the CISNA website has been useful, this was probably due more to their perception that the website is a step in the right direction rather than any benefits it offers on information on regional markets.

Capacity Building: CISNA training has not yet had any tangible impact on insurance and pensions in Mozambique. The ISSM indicated that although they are regularly invited to participate they are prevented from attending due to a lack of funds. In fact, they could not recall the last time one of their members attended a FIP-based capacity building activity.

Consumer Awareness: Finally, the ISSM has not received any direct support in consumer awareness from CISNA itself although they have benefited considerably from information exchange with other CISNA members on a one-on-one basis. This entailed information gathering country visits which have been used as a direct input in the preparation of a domestic consumer awareness strategy, including a plan to produce brochures on consumers' rights and duties. However, progress here has been blocked by the lack of a legal instrument that permits consumer awareness in the Insurance Code. Once this hurdle has been surpassed the ISSM will proceed with dissemination events and campaigns.

2.2.10.2. CAPITAL MARKETS

Accreditation & Legal Framework: Although Mozambique is not yet a member of the International Organisation of Securities Commissions (IOSCO), it is no longer at a preliminary stage in its CISNA requirements, having prepared and revised its existing regulation which is to be presented at the next CISNA meeting. As CISNA obliges each member state to participate in at least one CISNA task force project, Mozambique, in conjunction with South Africa, is involved in designing regulation for a Central Deposit of Securities. In this regard a survey and other basic information gathering activities have been completed and a proposal prepared to Financial Sector Technical Assistance Project (FSTAP) with activities and funding requirements.

Self-Assessments: At the Banking Supervision Department level there is not yet a specific report which monitors the evolution of capital markets. The BdM is still in process of establishing this process but argues that the securities market is too small to justify a report and self-assessment process. For the moment it argues that the reporting of core activities to the supervisory department as well as the annual report is sufficient.

Information Sharing: The Banking Supervision Department indicated that the CISNA website is still not available for its members. CISNA members are, however, regularly sharing information with each other by means of email. In particular, progress has been gained from the signing of a multilateral MoU that applies to all authorities in securities, pensions and insurance whilst bilateral agreements have been signed with both South Africa and Zambia. This has enabled Mozambique to benefit substantially from information shared by the Financial Services Board in South Africa. Attention was also brought to plans to link SADC stock exchanges.

Capacity Building & Consumer Awareness: The capital markets team indicated that they attend capital market training courses on a yearly basis in the CISNA headquarters in South Africa. In particular, in 2009 the team received training on consumer financial education although no consumer awareness campaigns have been conducted yet. However, the BdM has published brochures on its website guiding the public through the basics of its activities and functions.

Coordination: In contrast to the ISSN, liaisons directly with the regional insurance and pensions committees, there is significant coordination within the capital markets component of CISNA. At the regional level, the subcommittee obliges each member state to participate in at least one task force project. The Banking Supervision Department, in conjunction with South Africa, leads a project to design regulation for a Central Depository for Securities. At the domestic level, the CISNA capital markets' component is led by the Banking Supervision Department.

2.2.11. ANNEX 11: COOPERATION IN SADC STOCK EXCHANGES

Capital Markets: The Bolsa de Valores de Maputo (BVM) (Maputo Stock Exchange) has registered a steady increase in the number of registered securities, albeit from a low base. Not only have trading volumes increased but the number of participants, which are predominantly brokers within commercial banks, has also steadily risen over the years. At the present moment, 19 securities are traded on the BVM, the majority of which are debt-based

instruments as there are only two listed companies.¹⁷ Listed firms per million population remains low at 0.09, whilst there are still no dual listed firms on the BVM. Data on the value of funds in the capital markets is unavailable. The stock market capitalization to GDP ratio sits at 4.03% with the former component of the ratio measuring \$410million. Unfortunately, the BVM does not collect data that discriminates between types of stocks, securities and transactions realized per year, implying that it is not possible to assess ownership concentration.¹⁸

Principles: The activities of the CoSSE committee have compelled the BVM to take important steps so as to become aligned with regional principles.

- **Operational Changes.** The BVM has undertaken restructuring in its procedures so as to allow for the creation of a Central Deposit of Securities which is expected to be up and running by 2012. Further, all trading transactions have been automated, although transactions are still only cleared three days after the settlement. The stakeholders emphasized that this is due less to technological or operational inabilities than it is to the low volume of transactions which don't justify updating the system.
- **Legal Framework:** Although all procedural recommendations of CoSSE are reflected in the Exchange Act, at this stage not all of them have been implemented due to the small size of the market. One caveat is that the BVM included fiscal incentives in this legal revision so as to serve as a "sweetener" for foreign investors. This includes an exclusive condition for the BVM in the capital and financial account which provides for exemptions in capital and financial account controls in the form of full repatriation of profits, dividends and funds, as well as a 50% exemption from income tax.
- **Harmonisation:** Mozambique still is at a preliminary stage of aligning its principles with those of the regional level. To account for this limited progress, the BVM argues that some Johannesburg Stock Exchange (JSE) regulations and legislation are simply not applicable in Mozambique due to latter being in a "pre-emergent" phase. It is worth adding, moreover, that the stakeholders do not consider the adoption of JSE standards as a loss of sovereignty but, on the contrary, the logical option to pursue. The dimension, proximity and world-class standards of the JSE are considered as a source of pride with positive spillovers for Mozambique. Indeed, many Mozambicans living and working in South Africa return to their country with an experience of stock exchanges and their own equity on the JSE.

Self-Assessments: The BVM does not conduct surveillance or self-regulatory practices. Firstly, Mozambique opted not to form a Securities and Exchange Commission again due to the size of the market. Instead, after considering the experience of Malaysia it was decided to train functionaries within the Banking Supervision Department of the BdMin stock market evaluation. In addition, an emphasis was placed on training within the BVM to prevent money laundering activities from penetrating capital circulating in the exchange. As such, surveillance

¹⁷ Namely, Cervejas de Moçambique, a food and beverage company, and Companhia Moçambicana de Hidrocarbonatos, the national hydrocarbon firm.

¹⁸ Data provided to the author by the BVM.

is conducted by the BdM which generally performs supervisory audits three times a year, in addition to accompanying the daily movements of the exchange via an online platform. Finally, BVM is required to send periodic reports of its own activities to BdM.

Dual Listing: Both the Securities Code and the Exchange Act allows for dual listing in principle although the BVM has no experience in dual listing. Domestic brokers are in principle allowed to undertake international transactions in other stock exchanges but this is also not yet operational. It was emphasized that the state will eventually sell its shares in the mega-projects (e.g., Mozal) in a series of Initial Public Offerings (IPO) although the BVM is considering a compulsory condition that these shares should be sold to Mozambican nationals only.

Capacity Building: On the downside, FIP implementation has provided no avenue so far for BVM personnel to benefit from SADC training activities. A SADC evaluation was undertaken in September 2010 to discuss possibilities for training courses in public financial education but this has still not yielded results. BVM has in the meantime concentrated on its own capacity building activities, especially with internship programmes (five of the current staff have been sourced from internships), IT training and a month-long induction for new recruits.

Information Sharing: Although the BVM has not been able to offer much due to the small size of the exchange and language barriers, it has benefited unconditionally from support, advice and information provided by other exchanges. The three CoSSE meetings per year to discuss the CoSSE hub and spoke model of interlinked exchanges have served to also improve bilateral relations between exchanges which has led to the signing of a series of MoUs. One major MoU in this regard was signed with the JSE for information sharing, especially regarding training purposes. As such, when Mozambique requires information on what type of training courses it should attend its first port of call is the opinion of a dedicated training department within the JSE. Further, in the lead up to the establishment of the Central Deposit of Securities Mozambique visited both Zambia and Mauritius to learn from their experiences and gather information. Mauritius has since agreed to continually advise Mozambique in this initiative.

Coordination: There are significant overlaps between internal and regional Committee on Insurance, Securities and Non-Banking Financial Authorities (CISNA) capital markets and Committee of SADC Stock Exchanges (CoSSE) activities, primarily through banking supervision practices. At the regional level, the BVM is an active participant in an initiative to link regional stock exchanges

3. CONCLUSIONS AND RECOMMENDATIONS

3.1. CONCLUSIONS

The status of FIP implementation in Mozambique is characterized as unbalanced across its annexes, with subcommittees moving independently from another and at different velocities.

Effective coordination of the various annexes is weak, and reflects the lack of coordination between SADC itself, and the fragmented nature of domestic core finance and investment institutions.

Broadly speaking, however, Mozambique illustrates a gradual convergence on regional norms, principles and guidelines across all annexes. From an operational point of view, moreover, progress has been made in Mozambique's more fragile markets due to the establishment of the necessary institutional framework. Other encouraging areas are progress in payment systems, banking supervision and taxation. However, areas such as insurance, capital markets, stock exchanges, PPPs and Development Finance Institutions (DFIs) still require considerable nurturing. This is measured by tangible impacts in standards, capacity building and information sharing.

The most obvious blockages and areas of progress can be summarized in the following annexes:

Investment: The apparent progress due to increased FDI and capital flows is arguably less a result of FIP than Mozambique's own initiative to improve its business environment in conjunction with the favourable conditions of the commodity boom in the past decade. *National investment remains poorly coordinated with regional developments.*

Macroeconomic Convergence: The vulnerability to inflation and other exogenous shocks has limited convergence on the FIP macro-economic criteria, although coordination between the MF and BdM is strong.

Taxation: The ATM has made significant progress in negotiating and signing agreements with other SADC members which have set a precedent for cooperation. However, there are some inconsistencies with its fiscal benefits legislation and the FIP document. The blockage here is attributed to be a lack of clarity in Section 3 (Annex 3) in that it does not provide conditions for the amount of time that conditions and exemptions are applied, nor is it clear how this relates to investment laws. In particular, Section 3(b) needs to spell out exactly how other countries may perceive tax legislation to be harmful. In its current form, the ATM could not see how their own code could have caused any diversions of investment within the region.

Exchange Control: FIP implementation in this annex has had a limited progress, despite the breakthrough of the liberalisation of the current account. The lack of a legal procedure at the regional level is a major blockage to a clear orientation between the regional and national committees. Further, structural conditions and exogenous shocks in the BoP have obstructed the design of a roadmap to currency convertibility and capital account liberalisation.

Payments & Banking Supervision: These annexes are arguably the most successful cases of FIP implementation in Mozambique, with tangible impacts evident across the underlying commitments to modernise payment systems and conform to the Basel Core Principles. However, AML regulation is yet to be aligned with best international practices.

CISNA: Insurance and pensions have made significant progress and have benefited from the regional process. Nevertheless the ISSN is only establishing the building blocks at this stage and there is limited progress. FIP has also helped impart basic consumer awareness principles.

Regarding capital markets, the overlap between CISNA, Banking Supervision and CoSSE has on the one hand led to a positive complementarity in the development of the security market. On the other, however, it can be argued that this has simultaneously acted as a blockage for potential gains in other non-bank financial institutions. In particular, the low market capitalisation of the BVM has arguably distracted the efforts of Mozambique when significant potential exists in microfinance, micro insurance, micro banks and savings and loan institutions.

3.2. RECOMMENDATIONS

In line with the above findings, it is recommended that the SADC Secretariat or donors might directly assist Mozambique with implementation of the FIP in the following ways:

General and coordination issues:

- Lead training initiatives for the ATM, MPD and CPI in cost-benefit analysis, revenue forecasting, scenario planning and contract negotiation customized to the natural resource extraction sector,
- Ensure that Portuguese-speaking trainers are contracted for SADC capacity building endeavours,
- Forge a direct relationship with the International Cooperation Service of the Foreign Department in the BdM in order to support the creation of a multi-sectorial FIP team.

Investment:

- CPI to become a member of the regional IPA forum to facilitate interaction in investment between member states, including a possible data portal housed in the Directorate for Trade, Industry, Finance and Investment (TIFI),
- Build a strategic relationship with the MPD in order to integrate and better coordinate public and donor actors with CPI's private investment activities,
- Support the CPI in the monitoring and inspection of approved projects over time by creating an database that is integrated with realised investment flows captured by BdM,

Tax:

- Clarify Section 3 (Annex 3) of the FIP with respect to the interpretation of tax competition, including specific conditions on binding periods and investment laws,

Exchange controls:

- Conduct an in-depth study of regional exchange controls to better understand the legal instruments required to converge on full currency convertibility and the steps needed to fast track cooperation,

Non-banking supervision:

- Support the ISSN in the evaluation and regulation of the insurance and pension market by establishing monitoring mechanisms and a database of products and client profiles,
- Nominate an In-Country Capital Market Leader from the private sector to lead an access to finance portfolio of CISNA activities, especially in micro banking, the formalisation of savings and loans institutions and links between micro-finance and micro-insurance products,

DFIs:

- Advise the Mozambican government in the establishment of a dedicated institution in the Ministry of Finance modelled on the South African Treasury PPP unit,
- Support the DFRC in the compilation of a database on regional DFI projects, especially in the recruitment of a PPP Expert and an IT Officer.

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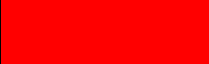


5. APPENDICES



5.1. APPENDIX 1: INTERVIEW SCHEDULE

Annex Subcommittee	Institution	Name
COSSE	Mozambique Stock Exchange	Mr Jussub Nurmamade
COSSE	Mozambique Stock Exchange	Mr Rodrigues Paruque
Payment Systems	Banco de Moçambique	Mr Henrique Matsinhe
Payment Systems	Banco de Moçambique	Ms Aurora da Glória Vaz Bila
IT Systems	Banco de Moçambique	Mr Paulo Maculuve
Exchange Control	Banco de Moçambique	Ms Telma Gonçalves
Exchange Control	Banco de Moçambique	Mr Paulo Manjate
Legal and Operational Frameworks	Banco de Moçambique	Mr Mussa Mussa
Macro Convergence	Ministry of Finance	Mr Carlos Comissal
Macro Convergence	Ministry of Finance	Ms Nalla Diawara
Macro Convergence	Banco de Moçambique	Mr Domingos Fumo
Macro Convergence	Ministry of Finance	Mr Evildo Semo
Investment	CPI	Ms Nelza David
CISNA (Insurance and Pensions)	ISSN	Mr Xavier António Chongo
CISNA (Insurance and Pensions)	ISSN	Mr Rui de Tsevele
Tax	Mozambique Revenue Authority	Mr Hermínio Sueia
Tax	Mozambique Revenue Authority	Mr Mauricio Alexandre Mioche
Tax	Mozambique Revenue Authority	Mr Sebastião Lai Naíete Banze
Tax	Mozambique Revenue Authority: Directorate of Revenue Forecasting and Analysis	Mr Dinis Nhancume
Tax	Mozambique Revenue Authority: Planning, Studies and International Co-operation	Mr Gimo Ibis Garibo Jone
Private Sector	Mozambican Banking Association	Ms Sara Pagueue

SSBS and CISNA [Capital Markets]	Banco de Moçambique	Mr Umaia Mahomed
SSBS	Banco de Moçambique	Mr Melita Isabel Timga
SSBS	Banco de Moçambique	Mr Juvêncio Nhaule Júnior
CISNA [Capital Markets]	Banco de Moçambique	Ms Olga Jordão
DFI	GAPI SARL	Mr Antonio Souto
DFI	GAPI SARL	Mr Adolpho Muholove
Private Sector	Standard Bank Ltd.	Mr Camal Daude

5.2. APPENDIX 2: MATRIX OF COMMITMENTS

Colour	Status
Achieved	
Partially achieved	
Not achieved	
Not assessed	
Not applicable	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
None	None	FIP instrument ratified by all member states.		SADC Secretariat	
None	None	National FIP coordinating structures in place to facilitate better FIP implementation.	National Committee for FIP Implementation	SADC Secretariat	
Annex 1: Cooperation in Investment	5,6,8,9,27	Existence of domestic investment law that: Protects investors, allow repatriation of profits, allows access to courts		CPI	All three present = green

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	21	Signatory to international conventions: New York Convention		http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html	Member = green
	21	Signatory to international conventions: ICSID		http://icsid.worldbank.org/ICSID/Index.jsp	Member = green
	21	Acceded to international conventions: MIGA		http://www.miga.org/about/index_sv.cfm?stid=1695	Member = green
	8	Investment policies, information etc. easily accessible to investors	CPI brochures and CDs are published explaining main legislation and specific regimes. Website is operational with all legislation available.	CPI	
	23	MS has an active IPA	Yes, the CPI	CPI	
	2	Member ranked above (or equal) to OECD average rating of the Strength of Investor Protection Index	6.0 (ranked 44 in the world)	World Bank Doing Business, Investor Protection Index	Better than or equal to OECD average = green; worse = red
	19	MS's national policies and regulations comply with the Regional Investment Policy Framework and/or the minimum principles for investment regimes in the region.	Not Assessed (not measured in 2011)	Investment subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 1: Cooperation in Investment	19	Regional Investment Policy Framework is drafted and agreed to by MS	No standard framework yet exists in the region.	Investment subcommittee	
	23	Evidence of events and activities run by IPA Forum and attended by MS IPAs	The SADC IPA forum has been established, however the most recent event was poorly attended by CEOs of IPAs operating in MS	Investment subcommittee	
Annex 2: Macroeconomic Convergence	2,3,4	Inflation rate low and stable (< 9%)	12.7% (2010)	Ministry of Finance	Within range = green; out of range = red
	2,3,4	Public and publicly guarantee debt to GDP < 60%	41% (2010)	Ministry of Finance	Within range = green; out of range = red
	2,3,4	Budget deficit to GDP ratio at widely accepted prudent levels (< 5%)	4.9% (2010)	Ministry of Finance	Within range = green; out of range = red
	5,8	Cooperation/Information Sharing: submission of data to SMSD	Database is updated every 6 months; A senior technician in the Departamento de Estudios Económicos e Estadísticas in BdM is responsible for this.	BdM	
	7	Cooperation/Information Sharing: participation in peer review panel	N/A	BdM	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 2: Macroeconomic Convergence	7	The Peer Review Mechanism is approved for establishment and operational	Discussions towards establishment of the mechanism are on-going. Framework and guidelines have not yet been adopted. Generally, MS are supportive of the Peer Review Mechanism, but have specific concerns which need to be addressed at subcommittee level.	Macroeconomic convergence subcommittee	
Annex 3: Cooperation in Taxation Matters	5.3	Number of DTAs signed with other SADC member states	3 - South Africa, Botswana, Mauritius	ATM	< = 6 red, 7 - 10 orange, 11 - 14 green
	2	Up to date and publicly available tax database (national)	Yes but not up to date and some on ATM website, some on MoF website	ATM, MoF	
	2	Up to date information submitted to SADC Tax Database (when fully operational)	N/A	ATM	
	6.6	Signatory to the Mutual Agreement for Information Exchange with member states (AATM)	N/A	ATM	
	6	Harmonised to the regional guidelines for the administration of Indirect Taxes	N/A	ATM	
	4	Harmonised to the regional tax incentives guidelines	N/A	ATM	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 3: Cooperation in Taxation Matters	3	Tax officials participate in capacity building activities		Ministry of Finance/Revenue Authority	
	5	Existence of Model Double Taxation Avoidance Agreement	Model DTAA and Commentary approved and adopted by all member states.	Tax Subcommittee	
	4	Guidelines for the appropriate treatment of tax incentives drafted and approved for adoption by MS.	Drafting of guideline documents still in progress.	Tax Subcommittee	
	4	A Fiscal Model for cost benefit analysis developed and approved by Ministers of Finance. Fiscal Model must comply with items articulated in Art. 4 section 5.	Cost Benefit Analysis model not yet developed.	Tax Subcommittee	
	6	SADC Agreement for Assistance in Tax Matters (AATM) approved and signed by all member states (multi-lateral agreement).	Finalised in 2008, waiting for approval by Ministers of Justice/Attorneys General awaiting clearance and signature by Summit.	Tax Subcommittee	
	6	Guideline for the administration of indirect tax in the region is approved for adoption by member states.	Still under review by the Indirect Taxation working group.	Tax Subcommittee	
	7	Mechanism for the Settlement of Tax Disputes developed and approved by Ministers of Finance.	Has not been developed or approved for implementation	Tax Subcommittee	
Annex 4: Cooperation on	2a	Liberalised Current Account	Yes - 11/2009 revision of the Exchange Act	BdM	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Exchange Control	2a	Liberalised Capital (Financial) Account		BdM	
	2c,3.1.c	Full Currency Convertibility		BdM	
	2d, 3d	Collect and publicise data on foreign exchange transactions (e.g. automated cross border reporting system)	Officials unsure	BdM	
	2a	Roadmap for exchange control liberalisation in current and capital (and financial) account transactions is drafted and approved	The roadmap has been drafted by the subcommittee. All countries except the DRC have signed and approved the roadmap, and so it has not been implemented as yet.	Exchange control subcommittee	
Annex 5: Harmonisation of Legal and Operational Frameworks	3b	Autonomy/independence of Central Bank	No - Monetary policy decisions are subject to the approval of the Executive	BdM	
	2	Compliant with SADC Central Bank Model Law (when/if made binding)	N/A	BdM	
	4.2	Adoption of price stability as mandate	No - the Central Bank Law currently states that the BdM is responsible for pursuing a variety of monetary-related objectives, including maintaining the value of the currency.	BdM	
	3c	Ability of Central Bank to set own budget	Not Assessed	BdM	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 5: Harmonisation of Legal and Operational Frameworks	2e	Extent to which central bank can lend to government	Yes - but only up to an amount of 10% of government's ordinary revenue collected in previous 2 years.	BdM	
	3	Existence of Model Central Bank Law	The Model Central Bank Law has been drafted and approved by all SADC member states	Legal and Operational Frameworks subcommittee	
	2	Roadmap for the establishment of a Common Central Bank developed and approved.	Legal & Operational Committee has recently been tasked with the development of a roadmap for the establishment of a single Central Bank. No progress yet on this matter.	Legal and Operational Frameworks subcommittee	
Annex 6: Cooperation on Payments Systems	3a	Payments systems in place domestically		BdM	
	3c, 3e, 4.1.c	Risk mitigation strategy implemented	Yes - but no audits	BdM	
	4.1.d	Existence of national payments system law	No unified legal framework, but allowances in various pieces of legislation	BdM	
	2	National payment system law aligned to regional model law	N/A	BdM	
	2, 3d	MS linked to SADC regional payments systems (when operational)	N/A	BdM	
	2	Model Payment System Law developed and approved		Payments System subcommittee	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 6: Cooperation on Payments Systems	3	Model Payment System Strategy is developed.	This is not in place yet. However, the strategy is being developed for the CMA countries to be piloted in this sub-regional bloc. The intention that this will allow a 'tried and tested' strategy to be rolled out to the rest of the region	Payments System subcommittee	
Annex 7: Cooperation in the area of ICT	3, 4	Legal framework for data privacy in place	Not Assessed (not measured in 2011)	Each Central Bank & IT Forum	To enable cross border business based on ICT taking in account that all business are supported by ICT platform
	3	Standard regarding ICT systems interpretability in place	Not Assessed (not measured in 2011)	IT Forum	Promote cross border business specifically for Payment Systems
	3.5	IT Governance framework adopted for the region.	Not Assessed (not measured in 2011)	Each General Bank & IT Forum	
	3	ICT communication Infrastructure to connect member states in place	Not Assessed (not measured in 2011)	IT Forum	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 8: Cooperation in Banking and Regulatory Supervision	2	Compliant with the 25 BASEL core principles	Compliant with 19, partially compliant with 4	2009 FSAP evaluation / BdM	Less than 20 = red; 21 to 25 orange; 25 green
	2	Self-assessment audit happening on annual basis	The BdM has not completed comprehensive self-assessment exercises	BdM	
	Annex 14	Membership of ESAAMLG & completion of a mutual evaluation	Member of ESSAAMLG, yet to conduct mutual evaluation	BdM	
	Annex 13	Compliant with international standards for auditing and accounting - IFRS	IFRS standards were adopted for the entire banking system in 2008. All banks are now reporting to the IFRS	BdM	
	2, 4	Regional agreement on framework for central bank supervision.	Harmonisation of banking supervision and regulatory principles in progress.	Banking Supervision subcommittee	
Annex 9: Cooperation on Development Finance Institutions	3, 9	Participate in regional development projects through cooperation in pooling of funds, project identification, project management.		GAPI	
	3f, 7	Attending capacity building activities organised by DFRC (secondment, work placement, training)		GAPI	
	Annex 1	PPP: Establishment of PPP Policy Framework, Legal Framework, Institution Framework	Not Assessed	GAPI, Ministry of Finance	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 9: Cooperation on Development Finance Institutions	2	The DFI network and DFRC are established and active.	Yes.	SADC Secretariat	
	11	Regional Insurance Guarantee system in place and approved.	The Regional Insurance Guarantee scheme has not been agreed upon or implemented.	DFI network	
	3	Number of regional development projects in progress (where regional refers to projects with benefits to more than one country, or with more than one country collaborating on a project)	Only evidence of regional projects is DBSA projects, which are not necessarily attributable to the DFI network. No collaboration between DFIs on regional development projects.	DFI network	
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	7	Membership of IOSCO (harmonising to international standards)		BdM	
	7	Membership of IOPS (harmonising to international standards)		BdM	
	7	Membership of IAIS (harmonising to international standards)		BdM	
	3, 4, 5	Committed to information sharing (Multi-lateral agreement signed by all CISNA members)		CISNA	N.B. except Seychelles who has not yet participated in CISNA

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	10	Participating in capacity building activities	The ISSN indicated that although they are regularly invited to participate they are prevented from attending due to a lack of funds.	ISSN	
	9	Alignment to SADC regulatory framework for Non-Banking Financial Institutions (when drafted and approved)	N/A	ISSN	
	9	SADC regulatory framework for non-banking financial institutions established and approved for the region	SADC Framework is not yet developed. But progress has been made in that member states' NBFIs authorities have been tasked with drafting the various components of the framework.	CISNA	
Annex 11: Cooperation in SADC Stock Exchanges	2	Cooperation: Member of COSSE		BVM	
	2	Cooperation: Information Exchange		BVM	
	2.3	Participate in capacity building activities (either attend or host)	No - so far no BVM personnel benefited from SADC training activities	BVM	
		MS harmonised to SADC common principles.	Not Assessed (not measured in 2011)	BVM	
	2.5	MS who are completing the minimum standards for surveillance and risk assessment.	Not Assessed (not measured in 2011)	BVM	

Annex	Article	Indicator	Status 2011	Source/Institution	Criteria
Annex 11: Cooperation in SADC Stock Exchanges	2.7	Extent of diversification of the registered market participants on MS stock exchange (% individuals, % trusts, % corporates)	Not Assessed (not measured in 2011)	BVM	