Status of Agricultural and Rural Finance in Mozambique

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ACRONYMS

ADEM	-	Manica Development Agency
ADIPSA	-	Support to the Development of Private Initiatives in the Agriculture Sector
AEO –	-	Annual Energy Outlook
AfDB	-	African Development Bank
AGRA	-	Alliance for a Green Revolution in Africa
AMOMIF	-	Mozambican Association of Microfinance Operators
ASCA	-	Accumulated Savings and Credit Association
BAGC	-	Beira Agricultural Growth Corridor
BCI	-	Banco Comercial de Investimentos
BIM	-	Banco Internacional de Moçambique
BISFMO	-	Building Inclusive Finance in Mozambique
BMZ	-	Federal Ministry for Economic Cooperation and Development
BOM	-	Banco Oportunidade de Moçambique
BoM	-	Bank of Mozambique
CCCP	-	Caixa Comunitária de Crédito e Poupança
CCOM	-	Caixas Comunitárias de Operadores de Microfinanças
CIDA	-	Canadian International Development Agency
CPPM	-	Caixa de Poupança Postal de Moçambique,
DNPDR	-	National Directorate for Promotion of Rural Development
DUAT	-	Right to use and Benefit of Land
EMOSE	-	Empresa Moçambicana de Seguros
EU	-	European Union
FAO	-	Food and Agriculture Organization
FARE	-	Fundo de Apoio a Reabilitação da Economia (Economy Rehabilitation Support Fund)
FDA	-	Fundo de Desenvolvimento Agrário (Agricultural Development Fund)
FDD	-	Fundo de Desenvolvimento Distrital (District Development Fund)
FFP	-	Fundo de Fomento Pesqueiro (Fishing Promotion Fund)
FFPI	-	Fundo de Fomento à Pequena Indústria (Small Industry Promotion Fund)
FSTAP	-	Financial Services Technical Assistance Project
GAPI	-	Small Investment Promotion Agency
GDP	-	Gross Domestic Product
GIZ	-	German International Cooperation
GRM	-	Government of Republic of Mozambique
HDI	-	Human Development Index
ICC	-	International Capital Corporation
IDPPE	-	National Institute for the Development of Small Scale Fisheries
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IFDC	-	International Fertilizer Development Centre
IGEPE	-	Instituto de Gestão e Participações do Estado
IMF	-	International Monetary Fund
INE	-	National Statistics Institute
IRAM		Institut de Recherche et d'Application des Méthodes de Développement
JFS/SAN	-	Grupo João Ferreira dos Santos
KfW	-	German Development Bank
mCel	-	Moçambique Celular
MFSDS	-	Mozambique Financial Sector Development Strategy
MLT	-	Mozambique Leaf Tobacco
MoF	-	Ministry of Finance
MPD	-	Ministry of Planning and Development
MPI	-	Multidimensional Poverty Index
MSMEs	-	Micro, small and medium enterprises
Mt/ MZM	-	Meticais
NGOs	-	Non-governmental organization
NUIT	-	Tax Identification Number
PARP	-	Poverty Reduction Action Plan
PEDSA	-	Strategic Plan for Agricultural Development 2010-2019

pm	-	per month
PPP	-	Purchasing Power Parity
RCRN	-	Redes de Caixas Rurais de Nampula
RFA	-	Rural Finance Association
RFSP	-	Rural Finance Support Program
ROSCAS	-	Rotating savings and credit associations
SACCOs	-	Savings and Credit Cooperatives
SADC	-	Southern African Development Community
SDC	-	Swiss Agency for Development and Cooperation
SIDA	-	Swedish Agency for International Development
SNV	-	The Netherlands Development Organization
UNACREDIT		União das Cooperativas de Crédito
UNCDF	-	United Nations Capital Development Fund
UNDP	-	United Nations Development Programme
USAID	-	United States Agency for International Development
USD	-	United States Dollar
WB	-	World Bank

1. EXECUTIVE SUMMARY

As part of its mission to “make financial markets work for the poor” in Africa, FinMark Trust commissioned the Centre for Inclusive Banking in Africa in 2010 to undertake a study to examine the current state of rural and agricultural financial services in the Southern African. This Mozambique country study is part of the first phase of this project and will be used to subsequently enable the development of regional and country level policy frameworks and strategies aimed at significantly improving access to and the inclusion in rural and agricultural finance.

The study calls primarily on secondary data, particularly the results of the FinScope 2009 national survey on individual perceptions of financial services and issues, to analyze the current socio-economic and financial sector environment, demand for and supply of agricultural and rural financial services and levels of access to and inclusion in these services. Development partner programs and activities related to the topic are also considered. Then, enabling and disabling factors are identified at the macro, meso, micro and client levels. Last, recommendations based on the previous analysis are offered for improving access to and inclusion in agricultural and rural financial services.

Around 69% of the Mozambique population is rural, primarily dedicated to activities related to agriculture. Education levels are very low among this population and most people live in poverty. On a positive note, the country’s economic environment has been stable in recent years leading to steady economic growth that is projected to continue into the future, in large part driven by activity in the natural resource extraction and energy sectors. A host of government strategies and plans aim to ensure that agricultural and rural development don’t fall behind, including the extension of agricultural and rural finance services, for which the general regulatory framework is favorable.

Rural areas are characterized by low levels of assets and seasonal income, mostly from agriculture or individual businesses. There is very limited access to communication, transportation, and other infrastructure and services, leading to high costs of doing business. Levels of financial literacy are very low, limiting demand for financial services. The most common reason to save is for an emergency or income generating purposes, and the most common reason to borrow is a non-medical emergency.

The country’s supply of agricultural and rural finance comes from commercial banks, microbanks, credit cooperatives, microcredit operators, rural financial associations, ASCAs, outgrower companies, commercialization advances, informal agents and government funds. Reach is limited in each case with major constraints being operational costs, basic infrastructure and professional staffing issues. Infrastructure for electronic payments exists, as do coordinating bodies for industry actors, though they remain weak.

The vast majority of rural dwellers has no access to and is excluded from financial services. In fact, over 1/3 of rural people live over 3 hours’ travel time from formal financial services. Farmer access to products specifically designed for agriculture is limited. Most people are not saving, but those that do tend to do so through informal services or in their homes. Rural people are borrowing even less than they are saving, doing so mostly through friends and family. The perception persists in rural areas that people should avoid borrowing if they can.

Support from development partner programs and activities, often carried out in coordination with government entities, are focused on increasing both the demand for and supply of rural finance. There are a host of programs that aim to increase the production of agricultural value chains and raise rural incomes. Multiple programs are in place to directly support the expansion of financial services to rural areas.

Enabling factors for expanding agricultural and rural financial services include the stable macroeconomic environment, a level of political commitment, supportive legislation and regulatory framework, and the assistance of development partners. Likewise, support and favorable conditions for developing branchless banking and other innovative services should enable expansion of and rural inclusion in financial services.

The low population density and lack of infrastructure needed to reach communities spread across a large geographic area are disabling factors for the sector. Furthermore, low levels of income and very limited financial literacy severely hold back demand for and expansion of financial services in rural areas. Limited public sector capacity also makes the task more difficult.

The primary recommendations to increase demand for agricultural and rural financial services center on continued efforts to increase incomes through improving agricultural production and market linkages. At the same time, every effort must be made to improve education levels, including using all available channels to increase financial literacy. On the supply side, government, donors and the private sector should continue to push development of branchless banking and other innovative services that have the potential to reach rural areas with appropriate and affordable services. Efforts should be made to connect rural populations to financial services at every possibility, be it through commercial agreements or input support from development partner activities. Additionally, assistance should continue for strengthening and forming informal groups, as they serve as effective means for increasing financial literacy and the provision of financial services. Maintaining a stable socio-economic environment is critical for both increasing demand and supply of financial services.

2. BACKGROUND TO THE STUDY

Access to financial services is an important contributor to enterprise productivity the world over. In Sub-Saharan Africa,where most people still live in rural areas and agriculture is the mainstay of the rural economy, access to financial servicesof all kinds still appears to be poor. Yet, relatively little is known about the demand for, supply of and effective level of accessto rural and agricultural finance or the policies, institutions and many other factors that determine them.

As part of its mission to “make financial markets work for the poor” in Africa, FinMark Trust commissioned the Centre forInclusive Banking in Africa in 2010 to undertake a study to examine the current state of rural and agricultural financial services in the Southern African region to enable the development of regional and country level policy frameworks andstrategies that will significantly improve access to and the uptake of rural and agricultural finance. The specific objectivesidentified were:

- to conduct country and regional level assessments of the current state of agricultural and rural finance in Southern Africa;
- to identify best practices in agricultural and rural finance in Africa and elsewhere;
- to develop an overall policy framework and strategic approach to address agricultural and rural finance challenges at regional and country level to assist country level programmes towards operational action and impact in terms of access;
- to provide a benchmark for agricultural and rural finance in Southern Africa and to develop a structure for long-term monitoring of progress; and
- to identify a small number of promising projects to assist.

2.1 Objectives, Ambit and Methodology

Sponsored by FinMark Trust to further its objective of “making financial markets work for the poor”, this study is an assessment of the status of agricultural and rural finance in Mozambique. Similar assessments were carried out in five other Southern African countries: Botswana, Malawi, South Africa, Zambia and Zimbabwe. All of these studies aim to understand the nature, extent and causes of the challenges related to agricultural and rural finance, and, ultimately, to derive a set of recommendations for addressing these challenges.

This assessment begins with an introduction to the socio-economic situation in Mozambique and a macro level analysis of the agricultural and rural finance sector. Second, the nature and extent of the problems and challenges are gauged by analyzing and comparing the demand for and the supply of finance in Mozambique’s rural economy. The following section details access to and inclusion in agricultural rural financial services. Then, insight into the causes of related challenges is gained by identifying the factors that either enable or disable the provision and utilization of agricultural and rural financial services. Last, recommendations are presented for extending the enablers and eliminating or minimizing the disablers.

The next phase of the larger study will identify best practices in agricultural and rural finance in the context of SADC. The final phase will develop country specific policy frameworks and strategies that incorporate such practices, in collaboration with decision makers from the respective countries.

In assessing the gap between demand and supply, attention is paid not only to the effectiveness of rural enterprises' and households' access to financial services – or lack thereof – but also to the appropriateness and sustainability of the products and services offered in relation to their needs. Particular emphasis is given to agricultural financial services, since farming is the dominant economic activity and generator of income and jobs in rural areas. This is done without losing sight, on the one hand, of the importance of financial services for other types of rural business and for rural households' needs as consumers, and, on the other, of farming as an urban activity.

3. INTRODUCTION

The following introduction sets the stage for exploring the status of agricultural and rural financial services in Mozambique. First, it provides a socio-economic profile of the country. Second, it presents a macro level analysis of the agricultural and rural finance sectors, including related strategies and regulatory framework. A more detailed profile of the rural population is included later in the chapter dedicated to demand. This chapter concludes with a discussion of why it is important to access the current state of agricultural and rural finance in Mozambique.

3.1 Country Socio-economic Profile

This socio-economic profile highlights characteristics of the country's population and demographics, provides an overview of its economy and closes with special attention to poverty.

3.1.1 Population

The most recent census, conducted in 2007, reported a population of 20.6 million people. The northern provinces of Nampula and Zambézia had the greatest number of people, with 4.0 and 3.9 million, respectively. Each of the other nine provinces had populations between 1.1 and 1.8 million. According to the estimates from the National Statistics Institute (INE), the country now has over 23.7 million people. With 799,000 sq. km of land, the population density is relatively low at just under 30 people per sq. km (WB, 2012a).

Even though life expectancy among Mozambicans rose from 42.3 years in 1997 to 50.9 in 2007, the country remains young in terms of demographics. The 2007 Census found that 46.9% of the population was under 14, and an additional 32% was between 15 and 34 years of age.

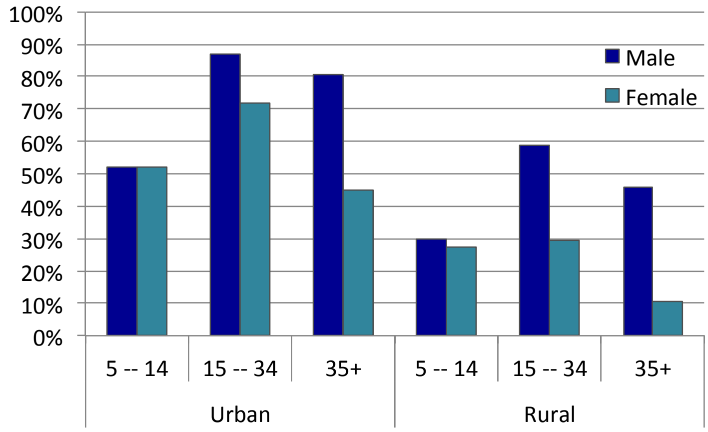
There are around one million more women in Mozambique than men, or 52% versus 48% of the population. The difference is even greater in some provinces, namely Inhambane and Gaza, where females made up 56% of the population in 2007 (INE, 2007). This is in large part due to men leaving for employment opportunities in neighboring countries, especially South Africa.

Most people in Mozambique live in rural areas. As of 2007, the figure was 69% of the population, down just 2% from 70.8% in 1997 (INE, 2007).

Of people over 15 years of age, 15.7% has competed some primary school, 12.2% some secondary school and 1% some type of post-secondary school. The 2007 census found that just less than half of the children between 5 and 9 years old attended school. Mozambique scores worse than all of its neighboring countries in the United Nations Development Programme (UNDP)2011 Education Index, a measure based on the mean number of expected and completed years of school (0.22 versus 0.41 in Malawi, 0.48 in Zambia and 0.71 in South Africa for example).

The literacy rate for the general population over 15 was 49% in 2007. The rates were lower for women, as well as for rural dwellers. Figure 3.1 displays the percentage of the population that can read and write by sex and age in rural and urban areas.

Figure 3.1: Percentage of population that can read and write by sex, age and residence

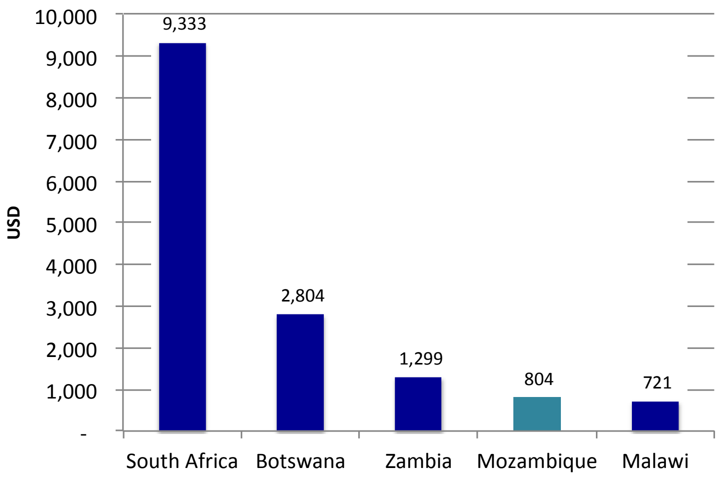


Source: 2007 Census, INE.

3.1.2 Economic Overview

Mozambique's real GDP growth rate averaged 7.7% from 2002 to 2010, although from a relatively small base. In fact, the economy ranked 124 out of 193 countries in 2010 in terms of absolute size, at $9.6 billion (WB, 2012b). Still, GDP growth is projected at between 7% and 8% for 2011 and 2012. Considerable foreign direct investment in the extraction sector has contributed substantially to this growth and continues to do so, particularly coal projects in Tete (AEO, 2012). Yet, most of the Mozambican population still lives in poverty. The GDP per capita, adjusted for purchasing power was $804 in 2009, one of the lowest figures among countries in the region, as shown in Figure 3.2.

Figure 3.2: GDP per capita 2009 (PPP)[1]

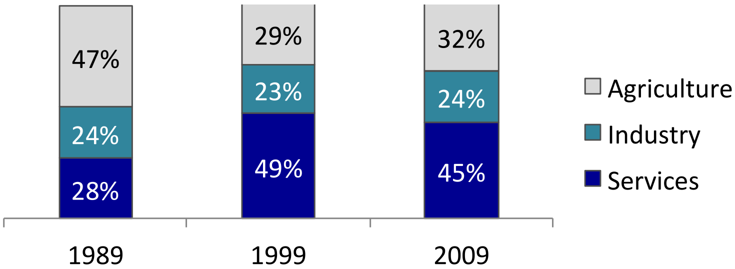


Source: UNDP Human Development Indicators, 2011.

In the late 1980's, the largest component of the Mozambican economy was agriculture. However, the proportion of the economy made up by the agricultural sector decreased in the 1990's as the service sector grew. As shown in Figure 3.3, the agricultural sector accounted for 32% of the economy in 2009, while industry and services made up 24% and 45% respectively. It can be expected that the proportion related to the industrial sector will grow as mega-projects begin to export coal, gas and other natural resources over the coming decade. Likewise, the potential exists for significant growth of first and second tier suppliers of goods and services to companies active in the extraction and energy sectors.

[1] Considers purchasing power parity (PPP) and 2005 dollars.

Figure 3.3: Percentage of Mozambique economy by sector



Source: Mozambique at a Glance, World Bank, 2012.

Despite the agricultural sector accounting for just 32% of the economy, over 75% of workers reported being active in agriculture, forestry and fishing in the 2007 census. Table 3.1 compares employment with GDP by sector.

Table 3.1: Employment and GDP by sector

Sector	Employment (≥15 yr.)	GDP
Agriculture, Forestry and Fishing	75.2%	29.4%
Commerce and Finance	10.0%	25.2%
Administrative and Other Services	6.7%	11.8%
Manufacturing	3.2%	14.1%
Construction	2.5%	3.1%
Transportation and Communication	1.2%	10.2%
Mining	0.7%	1.5%
Unknown	0.3%	
Energy	0.2%	4.7%

Source: 2007 Census, INE and Africa Economic Outlook Mozambique.

A 2009 study found that approximately 75% of the economically active population worked in the informal sector, or without complying with registration, tax or labor legislation (Byeirs, 2009).

Turning to the formal sector, Mozambique's exports include aluminum, cashews/nuts, prawns, cotton, sugar, citrus, timber, bulk electricity and natural gas, primarily to Belgium, South Africa and Zimbabwe. The country imports machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs and textiles, mostly from South Africa, Netherlands and Portugal (US Dept. of State, 2012). In 2010, the value of imports exceeded the value of exports by 12.4% of GDP (AEO, 2012).

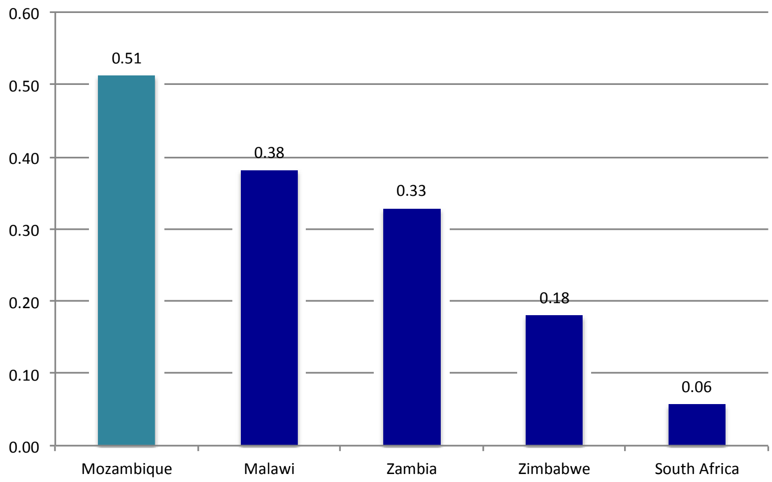
Mozambique imports large quantities of agricultural products and other foodstuffs from South Africa, especially to meet the demand of the majority of the country's urban dwellers that live in and around the southern city of Maputo. A prime reason for this is that many of the agricultural producing regions (and those with potential to produce) are located in the central and northern parts of the country and are not linked to markets by efficient transportation infrastructure and services.

Monetary policy has been focused on maintaining a favorable exchange rate for importing food, fuel and industrial commodities as well as keeping inflation in check. Inflation was projected at 10.8% for 2011, down from 12.7% in 2010. The inflation rate for 2012 is estimated to be around 7.2%. The inflation rate is vulnerable, however, to changes in the international energy prices as Mozambique imports most of its fuel (AEO, 2012).

3.1.3 Poverty

Mozambique ranked 184 of 187 countries in the UNDP's 2011 Human Development Index (HDI). It received an overall score of just 0.322, below both the "low human development" mark of 0.456 and the Sub-Saharan Africa average of 0.463. Poverty is frequently defined as those living below an income poverty line such as PPP $1.25/day (60% of Mozambicans in 2011). However, the HDI incorporates the Multidimensional Poverty Index (MPI) that accounts for levels of deprivation of education, health and living standards based on multiple indicators. The MPI score of between 0-1 represents the percentage of a country's population that is multi-dimensionally poor. As demonstrated in Figure 3.4, Mozambique's MPI of 0.51 is higher than other countries in the region (UNDP, 2011).

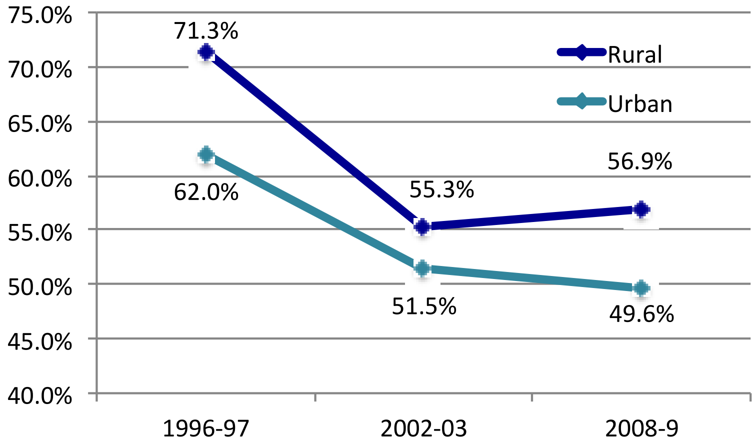
Figure 3.4: Multidimensional poverty index 2011



Source: UNDP Human Development Index 2011.

Poverty rates are higher in rural areas than urban areas. The Mozambique National Poverty Evaluation acknowledges that poverty is a multidimensional phenomenon and analyses a number of factors. However, it establishes the poverty line from which it determines the poverty incidence by calculating the amount of money an individual needs to cover their basic needs. Using this consumption measure, the study found 56.9% of the rural population to be living in poverty compared to 49.6% in urban areas. Overall, though still high, overall poverty levels have dropped substantially since 1996-97, as the economy has grown, however there has been some regression in rural areas since 2002-03. Figure 3.5 demonstrates that the gap narrowed between the 1996-97 evaluation and the 2002-03 study, only to rise again in 2008-09 as the rural poverty incidence actually rose by 1.6%.

Figure 3.5: Mozambique poverty incidence by urban and rural areas



Source: Third National Poverty and Welfare Evaluation, GRM, 2009.

3.2 Macro Level Analysis of Agricultural and Rural Financial Sector

The following section explores the country-level environment for the agricultural and rural finance sectors. First, strategies and plans related to agricultural, rural and finance sector development are presented, with an emphasis on government-led country-wide strategies. Next, the regulatory framework for the financial industry is explained, including the monitoring bodies. Last, other macro-level issues that affect agricultural and rural finance are discussed.

3.2.1 Strategies and Plans

The Ministry of Finance of Mozambique, with funds from the World Bank FIRST Initiative, created the **Mozambique Financial Sector Development Strategy (MFSDS) 2011-2020.** The pillars of the strategy include maintaining financial sector stability, supporting inclusive economic growth, developing formal financial services and rapidly expanding financial access. One of the strategy's focuses is the development and delivery of new financial products for rural areas through use of, for example, community based savings models to lower the costs of providing financial services to rural populations (MoF, 2011).

To improve rural finance, the Government of the Republic of Mozambique (GRM) introduced the **Rural Finance Strategy**, in order to expand the access to credit for rural individuals, groups and micro, small and medium enterprises (MSMEs), especially women and the poor. The strategy recognizes the challenges of bringing financial services to rural areas (perceived risk, high transaction costs, and the informality and low levels of income), but points to promising methods for developing the sector. It calls for continued support for accumulated savings and credit associations (ASCA's), recognizing that they often originate as informal groups. Additionally, the plan proposes the development of alternative models that have worked elsewhere, namely the creation of networks of credit cooperatives by grouping associations along value chains.

Focusing specifically on the agricultural sector, the GRM released the **Green Revolution Strategy** in 2008. The strategy concentrated on increased food security as well as better productivity and competitiveness to generate more employment and income. It called on Mozambique to learn from the experiences of other countries (GRM, 2008).

The **Strategic Plan for Agricultural Development 2010-2019 (PEDSA)** was released by the GRM Ministry of Agriculture to “incorporate a vision that is shared by key actors within the sector, creating a harmonized framework that will guide decisions, deals and issues that affect investor confidence and speed up agricultural competitively in a sustainable way”. It incorporates the Green Revolution Strategy as well as several other initiatives: the Priorities of the Agriculture Sector, the Research Strategy, the National Extension Programme, The Re-forestation Strategy, the National Forestry Plan, the Irrigation Strategy, the Food Action Plan and the Strategic Plan for Livestock. The PEDSA includes a value chain approach and calls for the private sector to play an important role in agricultural development, including in the provision of financial services (GRM, 2010a).

The Alliance for a Green Revolution in Africa (AGRA) **Breadbasket Strategy for the Beira Agricultural Growth Corridor (BAGC)** is a five-year strategy (2010-2015) aimed at increasing the productivity and income of small producers in one of the areas of Mozambique with the greatest agricultural potential. It seeks to generate 50,000 jobs, irrigate over 40,000 hectares and allow 200,000 farmers to double their income. To make this happen, the strategy calls for cooperation between private and public sector actors to attract investment to increase the availability and affordability of modern agricultural technologies, link small farmers and associations to commercial operators and value chains, and improve the enabling environment, including affordable finance (AGRA, 2010).

The GRM produced the **Poverty Reduction Action Plan (PARP) 2011-2014**in consultation with the WB, the IMF and other development partners to serve as a country-wide strategy for combating poverty and promoting inclusive economic growth. The plan’s objectives are agriculture and fishery development, job creation and improvements in health, education and other social services. The third poverty reduction plan, the PARP follows the PARPA I (2001-2005) and the PARPA II (2006-2009).

To increase the production and productivity of the agricultural and fishery sectors, the PARP includes various approaches, including improvements in production (through technology, inputs, organization and management), better market access and sustainable resource use. Improved access to financial services in rural areas, especially for women, is included as a way to improve market access. Specifically, this objective suggests lines of credit and guaranteed funds to support small producers and traders (GRM, 2011).

The GRM’s ***Plano Quinquenal do Governo para 2010-2014*** (Five-year Plan) lays out several approaches for rural development: i) promote productivity, competitiveness and accumulation of capital, ii) promote sustainable and productive use of natural resources, iii) expand human capital, innovation and technology iv) institutional and infrastructure development, and v) promote good governance. The plan specifies the following methods for promoting local economic development at the district level: promoting rural markets, incentivizing MSME development and improving monitoring and management of the District Development Fund. Furthermore, expanding banking and finance activities in rural areas is designated asa means for achieving rural development (GRM, 2010b).

3.2.2 Regulatory Framework

The Banking Law num. 15/99 includes regulation of credit institutions and financial societies. This law defines credit institutions as the following: banks, leasing companies, credit cooperatives, factoring societies, investment societies and others that can be classified as such by a special decree. Financial societies are specified as financial brokerage societies, brokerage societies, investment fund management societies, asset management societies, venture capital societies, group purchasing management societies, foreign exchange bureau and others that can be so classified by a special decree.

As a result of the emergence and development of microcredit institutions in the 1990s, in September 1998 the Bank of Mozambique approved Decree 47/98 to regulate microcredit activities in response to the emergence of new and developing microcredit institutions. This decree permits individual and collective bodies to engage legally exclusively in credit activities.

The Bank of Mozambique approved a revision of the Banking Law through Law 9/2004 of June 21st and Decree 57/2004 of December 10th. This adjustment served to regulate microfinance institutions, providing a legal framework for their activities. The decree created new classifications for microfinance institutions, as shown in Table 3.2.

Table 3.2: Categories of microfinance institutions[2]

MICROFINANCE OPERATORS			MINIMUM CAPITAL[3] (000 Mt)	ALLOWED OPERATIONS: Deposit Taking – From the public	Deposit Taking – Only from members	Credit provision – To the public	Credit provision – Only to members	Other
Subject to Prudential Supervision	Micro Banks	Caixa de Poupança e Crédito	5,000.00	Yes	n/a	Yes	n/a	Yes[4]
		Caixa Financeira Rural	1,200.00	Yes	n/a	Yes	n/a	Yes
		Caixa Económica	2,400.00	Yes	n/a	Yes	n/a	Yes
		Caixa de Poupança Postal	1,800.00	Yes	n/a	No	n/a	Yes
	Credit Cooperatives		200	No	Yes	No	Yes	Yes
Subject to Monitoring	Savings & Credit Organizations		150	No	Yes	Yes	No[5]	No
	Microcredit Operators		75	No	No	Yes	n/a	No
	Deposit Taking Intermediaries		n/a	Yes	n/a	No	n/a	No

Source: Bank of Mozambique.

The decree also helped promote the creation of institutions outside of the large urban provincial capitals through the provision of incentives. Additionally, its introduction was important because it allowed fora category of microbanks with much lower minimum capital requirements (between 1.2 and 5 million Mt.) than the 70 million Mt. required for commercial banks.

[2] Please note that other credit institutions and financial societies, for instance commercial banks, can also be involved in the provision of microfinance services

[3] Minimum capital can be reduced by up to 50% if the headquarters is located in Lichinga and by up to 70% if it is located in other provincial capitals, except for Maputo, Matola, Xai-Xai, Beira and Quelimane.

[4] Under certain circumstances and subject to Banco de Moçambique approval on a case by case basis, microbanks and credit cooperatives can be authorized to provide other types of financial service.

[5] Savings &credit organizations can also provide credit to non-members as long as their articles of association do not state the contrary.

Additionally, two of the microbank types are especially suited for rural areas and the low-income segment. The *Caixa Financeira Rural* requires that 50% or more of its activities bein rural areas. The major shareholder of a *Caixa Económica* must be a socially oriented non-profit body. The institutions classified as savings and credit organizations are also appropriate for serving rural areas.

Deposit taking intermediaries are permitted by the decree, allowing microfinance institutions not permitted to hold deposits to collect them from their clients and deposit them in financial institutions that are allowed to take deposits. However, there are no institutions currently operating on this basis, in part due to commercial banks' reluctance to form this type of partnership.

In an effort to improve transparency and reduce costs to consumers, the Bank of Mozambique (BoM), the country's central bank, published *Aviso* 5/2009, prohibiting credit institutions and financial societies from charging certain commissions for some services. The note requires these institutions to share the costs related to all products and services. This information must be sent quarterly to the BoM to be published in national newspapers twice yearly.

The Financial Services Technical Assistance Project (FSTAP), funded by the WB, GRM and donors, was launched in 2006 to provide technical assistance to the general financial system.This has included building the capacity of the BoM to take on supervisory activities as well as creating incentives for the development of innovative financial services. Specific components related to agricultural and rural finance development are discussed later in the section on development partner programs and activities.

In terms of the regulatory framework for branchless banking, the 2011 African Development Bank (AfDB)/BMZ/WB report *Financing Africa through the Crisis and Beyond* found that Mozambique is prepared for both domestic and international banking. The following were all deemed permissible for branchless banking: nonbank-based branchless model, outsourcing to retail agents, electronic money services, transaction limits, identification requirements as well as provisions for combating money laundering and the financing of terrorism.

The Anti-Money Laundering Law 7/2002 is an example of where legislation had threatened to limit financial sector development but was later adjusted to avoid this. Decree num. 37/2004 of this law potentially restricted the provision of financial institution services to rural areas since it required clients to have a government issued form of identification and tax identification number. However, through Decree 1/2006 the BoM extended the list of acceptable forms of identification to include election cards and witness deposition, which enables a much larger portion of population (mainly rural)to be eligible. Table 4.6shows that election cards are the most common form of identification in rural areas.

The BoM has begun applying a previously unapplied fiscal regulation to microfinance institutions, requiring that 20% of interest earned by foreign lenders be withheld by the BoM. As a result of this practice, either the lenders' return must be reduced or the borrowers' costs increased.

As supervisor of the financial system, the BoM is responsible for monitoring the financial sector. The BoM Supervision Department concentrates on monitoring those institutions that are legally subject to supervision. In its annual report, a chapter on the financial sector describes the banking system and provides an analysis of its performance. The bank also produces a series of statistics related to the sector, such as the credit share per sub-sector and performance.

3.2.3 Other issues

Effective procedures for the utilization of assets as credit guarantees as well as loan recovery are very limited. Weak contract enforcement hampers financial service provision in Mozambique. According to Doing Business 2011, an average of 30 procedures, 730 days and costs amounting to 142.5% of the value of the contract are required to enforce a contract (WB & IFC, 2012). Mozambique ranks poorly in this area both regionally and internationally. As a result of these factors, commercial banks demand very high collateral rates, often in excess of 100% of the loan value.

Only usufruct property rights exist in Mozambique, as opposed to ownership. This limits people's access to credit due to the inability to use their land as collateral.

3.3 Importance of Assessing Current Status of Agricultural and Rural Finance

As previously noted, most people in Mozambique live in rural areas (69%) and the majority of those people (56.9%) live in poverty (INE, 2007). The vast majority of rural people rely on agriculture for their livelihood. The seasonal nature of agriculture coupled with low levels of production, low margins on crop sales and lack of market integration make food security an issue for a great number of rural households. Low levels on income make it difficult for families to invest in education and health, let alone deal with disasters and emergencies.

Agriculture is the economic motor of most rural areas of Mozambique, and the effects from a poor year due to climate, diseases and plagues, or price fluctuations spill over into all other sectors of the rural economy, such as commercial and trading operations. However, the previously discussed strategies for the agricultural sector point to the potential for agriculture to generate new jobs and increase income for smallholder farmers through improved input supply chains, production technology and practices, value-added processing, and market linkages. Therefore, successful development of the agriculture sector could translate into improved security and livelihoods for rural families both directly and indirectly linked to agriculture.

The success of the agriculture sector, both for large and for small operations, is reliant on the availability and affordability of a variety of financial services. This includes production credit (for seeds, pesticides, fertilizer, equipment and labor) and commercialization credit(warehouse receipts, fixed-term and/or overdraft facilities). Generally, farmers also need savings services along with production and warehouse insurance. Small businesses and individuals also need access to financial services for general operations and to handle unexpected events.

Given that agricultural development is a key to overcoming the challenges faced in rural Mozambique, and that the success of the agricultural sector relies on the provision of financial services in rural areas, assessing the current state of agricultural and rural finance in Mozambique is essential for continuing to improve it, thereby helping rural people improve their lives. The assessment is especially relevant given the number of related national strategies being implemented. The following chapters examine the demand for and supply of agricultural and rural financial services, access to and inclusion in existing services and enabling and disabling factors. The report concludes with recommendations for public and private actors in the sector.

4. DEMAND FOR AGRICULTURAL AND RURAL FINANCIAL SERVICES

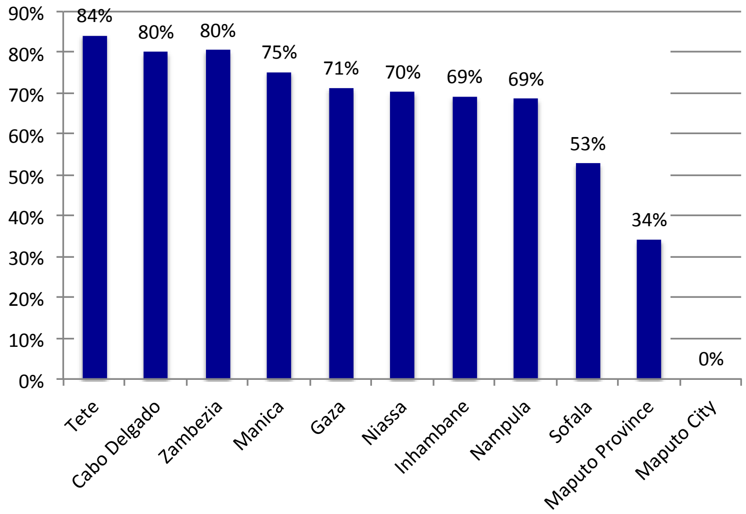
This chapter examines the demand for agricultural and rural financial services. In order to understand demand it is important to first examine the profile of the rural population, paying special attention to factors such as their education level, access to infrastructure as well as their economic activity and sources of income. Next, an overview of the demand for agricultural and rural financial services is presented, including key characteristics of the agricultural sector. Lastly, the demand for rural and agricultural financial services is explored by grouping rural dwellers by primary income typeto identify similarities and differences among the groups.

4.1 Profile of Rural Population

The following profile of the rural population utilizes data from the FinMark Trust'sFinScope 2009 survey of Mozambican households.

Most of the provincial populations in Mozambique are predominately rural, with the exception of Maputo City (0%) and Maputo Province (34%) in the south of the country. Sofala, in central Mozambique, has a 53% rural population. Each of the remaining provinces is over 69% rural in terms of demographics. Tete, Zambézia and Cabo Delgado are the most rural (84%, 80% and 80%). Figure 4.1 displays figures for each of the provinces.

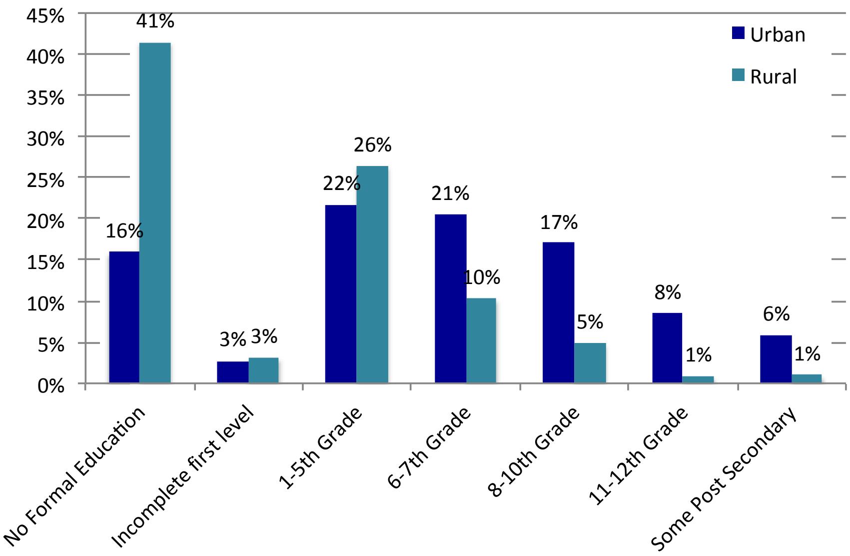
Figure 4.1: Rural population by province



Source: Finscope 2009.

The educational level of the rural population is low, with 41% indicating they had no formal education and an additional 29% signaling they had not studied past 5th grade. Only 1% of the rural poor had attended some form of post-secondary education. Urban dwellers reported a higher average education level. Figure 4.2 compares the statistics for the rural population with those of the urban population, demonstrating a significant gap between their education levels.

Figure 4.2: Education level by rural and urban area



Source: FinScope 2009.

The FinScope 2009 study asked participants about their sources of income. Over 37% reported that they were primarily dependent on another person or organization for their income or to pay their expenses. For those whose primary income source was self-generated, the main source was agriculture (28.4% - including selling their own crop, livestock and fish production) or their own business (23.4% - including trading of commodities and other goods, odd-jobs, manufacturing and service provision). Only 5.7% of rural dwellers reported receiving wages, a salary or a pension. The proportion of the population generating their primary income from offering financial services, namely lending money, was only 0.01%. All the reported sources of income are presented in Table 4.1.

Table 4.1: Primary income source in rural and urban areas[6]

Source of Income	Rural	Urban
Dependent	37.2%	46.2%
Agricultural	28.4%	7.5%
Own Business	23.4%	26.0%
Salaried	5.7%	16.5%
Without Income	3.6%	1.6%
Other	1.7%	2.2%

Source: FinScope 2009.

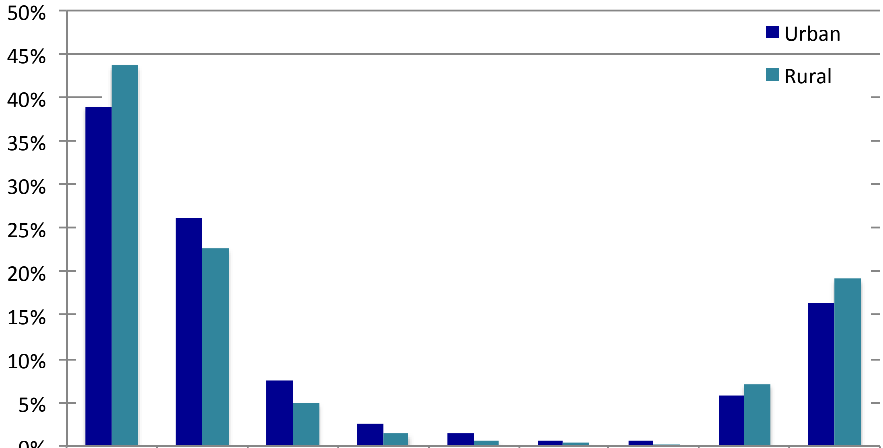
As shown in the table above, 7.5% of the urban population reported agriculture as its main income source. This group accounts for 2.5% of the general population. Due to its small size, it is not included later when demand for, access to and inclusion in financial services are analyzed by primary income group. Rather, the analysis will focus on the rural income groups displayed in the previous table.

Annual income levels are lower in rural areas than in urban areas. 43.7% of the people in rural areas reported less than 5,000 Mt. in annual personal income (less than $165 at the

[6] 'Dependent' includes relying on a household member to cover expenses or give money, receiving money, food or goods from aid agencies or NGOs, and receiving money or goods from friends and family from other areas; 'Agricultural' includes income from agricultural crops, livestock or fishing; 'Own Business' includes *Biscato* (odd jobs or day laboring), income from own business (such as trading of crops, livestock, fish or other goods, providing services, making/manufacturing, e.g. beer brewing, charcoal, handicrafts) and rental income and providing financial services; 'Salaried' is income from wages, a salary or a pension.

Dec 2009 exchange rate). 19% of rural dwellers surveyed claimed they didn't know how much they earned. Less than 7.5% reported annual income of over 25,000 Mt ($822) in rural areas. Complete annual income data is graphed in Figure 4.3.

Figure 4.3: Annual income by urban and rural area (in Mt.)



	< 5,000	5,001-25,000	25,001-50,000	50,000-100,000	100,001-200,000	200,001-300,000	> 300,000	Not willing to disclose	Don't know
Urban	38.9%	26.2%	7.6%	2.5%	1.4%	0.6%	0.6%	6%	16%
Rural	43.7%	22.7%	5.0%	1.4%	0.5%	0.3%	0.1%	7%	19%

Source: FinScope 2009.

A house is the most common asset of rural people, with 61.6% reported to own a house and 34% indicating that someone in their household owns the house they live in.It is worth noting that many, if not most, of these houses are very basic constructions, often using materials that can be gathered such as sticks and reeds. Still, most of these homes are not formally recognized, with only 0.6% of the people reported having a deed to a house or a building (see Table 4.6).Over 28% of the people had a radio, the same rate as people with bicycles. Only 7% had a cellphone. Very few people reported having automobiles (0.3%) or tractors (0.1%). The complete list of assets is in Table 4.2

Table 4.2: Housing and assets of rural and urban populations

Housing / Assets	**Rural**	**Urban**
House owned by you	61.6%	42.6%
House belongs to someone else in your household or family	34.0%	47.4%
Radio	28.9%	28.7%
Bicycle	28.5%	13.4%
Cellphone	7.0%	35.6%
TV	2.7%	20.0%
Motorcycle	2.7%	2.4%
Hi Fi System	2.5%	9.6%
Fridge/freezer	2.2%	12.5%
House temporarily borrowed	1.8%	1.9%
House rented	1.8%	7.4%
DVD player	1.7%	14.9%
Solar pane	1.2%	0.7%
Other	0.5%	0.5%
Mill	0.4%	0.2%
Computer	0.4%	4.1%
Car pickup	0.3%	2.9%
House owned but not yet fully paid for	0.2%	0.3%
Tractor	0.1%	0.1%

Source: FinScope 2009.

The lack of access to means of communication is striking in rural areas with 79% having no access. Cell phones were reported to be the most accessed means with 12.8% reporting that they use another person's cell phone and 10.6% using their own (a figure that places cell phone ownership above the 7% reported when respondents were asked about assets). Landline telephone and internet access is very low, as shown in Table 4.3.

Table 4.3: Access to means of communication in rural and urban areas

Means of Communication	Rural	Urban
Own Cellphone	10.6%	41.5%
Someone else's cell phone	12.8%	37.9%
Public phone / public cell phone	3.9%	25.2%
Telephone at home	0.9%	4.5%
Someone else's telephone	1.0%	6.3%
Post office box	0.3%	2.1%
Computer at home	0.5%	6.0%
Someone else's computer	0.5%	7.3%
Computer at Cybercafé	0.3%	5.2%
Internet/e-mail at home	0.3%	2.6%
Use someone else's internet/e-mail facilities	0.4%	3.2%
Internet/e-mail at cybercafé	0.4%	3.2%
Fax machine at home	0.3%	1.3%
Fax machine elsewhere	0.4%	3.1%
None of the above	79.0%	33.1%

Source: FinScope 2009.

The vast majority of rural people had access to a primary school (87.6%), a place of worship (81.7%) and a water source (80.9%). However, just 41.8% had access to a health facility, 22.1% to a tarmac road and 11.9% to a secondary school. Around just 15% had access to a shop with cement walls and a door, signaling the limited development of commercial operations in rural areas. Access to additional infrastructure is presented in Table 4.4.

Table 4.4: Access to infrastructure in rural and urban areas

Infrastructure	Rural	Urban
A primary school	87.6%	89.3%
A place of worship	81.7%	86.5%
The place to get water for household use (to drink)	80.9%	89.7%
A produce market/ food market	50.1%	78.7%
A health center/ health post/ Dispensary	41.8%	66.9%
A police station	25.3%	65.1%
A main tarmac road	22.1%	69.1%
Shop with cement block walls and a door (proxy for licensed shop)	15.1%	55.5%
A Secondary school	11.9%	59.4%
An NGO office	8.7%	35.6%
A Hospital (rural, general, provincial or central)	6.7%	39.2%
A Post office	5.1%	31.2%

Source: FinScope 2009.

Nearly half of the rural population lived without access to any form of public transport at the time of the Finscope study. As reflected in Table 4.5, 25.5% had access to public transport during certain times of the day and 10.4% could utilize it only on certain days. Fewer than 15% of rural people had public transport available whenever needed.

Table 4.5: Public transport availability in rural and urban areas

Transportation Availability	Rural	Urban

Unavailable	49.9%	13.2%
Only during certain times of the day	25.5%	20.7%
Whenever needed	14.2%	64.4%
Only on certain days of the week	10.4%	1.7%

Source: FinScope 2009.

While 75.7% of people in rural areas had an election card, less than half had a birth certificate and only 35.3% had an identification card. Just 1.8% indicated having a tax identification number and 1.2% possessed a driver's license. Less than 1% used a bank statement or other bills. See Table 4.6 for a full list of documents that rural people reported in their possession.

Table 4.6: Document used for identification in rural and urban areas

Documents	Rural	Urban
Election card	75.7%	72.2%
Birth certificate	48.9%	65.4%
BI/DIRE (Identification card)	35.3%	64.9%
None	9.2%	4.8%
Passport	4.4%	13.2%
NUIT (Tax identification number)	1.8%	11.1%
Driving License	1.2%	8.8%
Bank Statement	0.9%	8.9%
Salary pay slip	0.6%	4.3%
Title deed to house / building	0.6%	6.6%
Electricity bill	0.4%	9.9%
Water bill	0.2%	6.2%
Lease or Rental Agreement (e.g. DSTV, TV CABO)	0.1%	2.0%

Source: FinScope 2009.

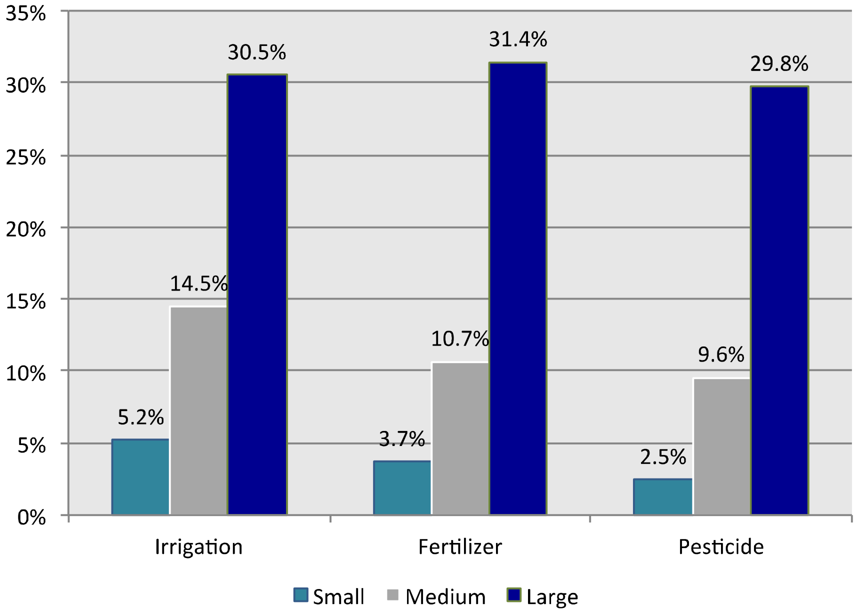
4.2 Overview of Demand for Agricultural and Rural Financial Services

Generally speaking, credit products for the agricultural value chain can be grouped into three categories: production, commercial activities and transformation. Production financial services are dominated by credit for seeds, pesticides, fertilizers, equipment and labor. Developed agricultural markets also include production insurance. Commercial activities can require warehousing credit and insurance for traders and associations, as well as fixed term commercial credit and overdraft facilities for traders, associations, processing companies and contracting companies. Savings services are also required by farmers, traders and associations to help them manage their finance over the year, i.e. deposits during the months of commercial activity and withdrawal in low income months. Lastly, processing companies demand credit and savings services (UNCDF & ICC, 2004).

Based on data from the 2009-2010 INE Agricultural Census, there are over 3.8 million farming enterprises in Mozambique, of which 99.3% are small scale.[7]Of all the farms, 71.6% are less than 2 ha. in size and less than 0.1% are over 10 ha. Over 96% of the 5.6 million cultivated ha. Are occupied by small farms. As shown in Figure 4.4, very few small farms use irrigation, fertilizer or pesticides (5.2%, 3.7% and 2.5% respectively). These levels are lower than those for medium and large farms, however not even a third of the large farms use any of the mentioned technologies (INE, 2010).

[7] The 2009-2010 INE Agricultural Census categorized farms as small if they had less than 10 ha. farmed without irrigation, had less than 5 ha. farmed under irrigation and had less than 10 head of cattle, 50 goats/sheep/pigs and 2000 poultry. Medium farms were categorized as such if they exceeded these limits in at least one category, but did not exceed the thresholds set for being classified a large farm (50 ha. farmed without irrigation, 10 ha farmed under irrigation and 100 head of cattle, 500 goats/sheep/pigs and 10,000 poultry.

Figure 4.4: Use of agricultural technologies by farm size



Source: INE Agricultural Census, 2010.

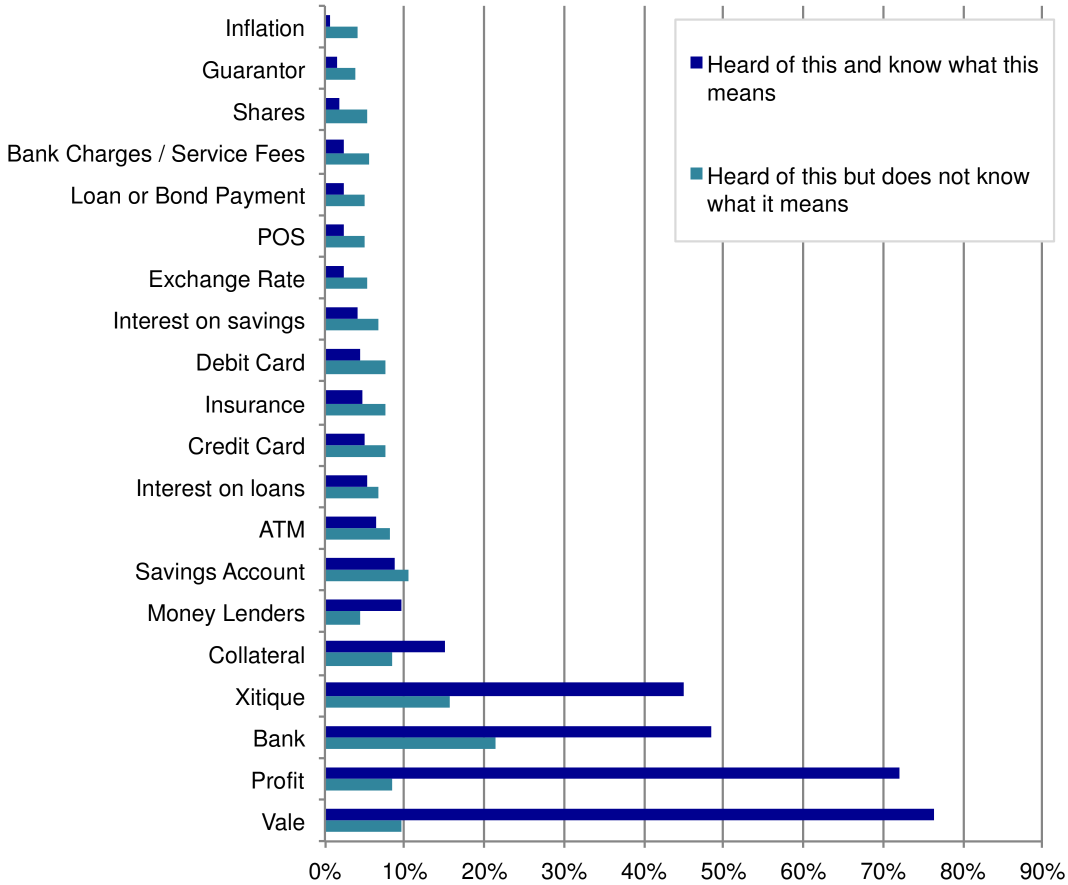
The irregularity of rain patterns in many areas of Mozambique, often attributed to global climate change, presents challenges for farmers practicing rainfed agriculture and increases the risk of investing (including through lending) in crop production.

The following section discusses in more detail situations in which rural dwellers would potentially require financial services and the extent to which they are used. Some examples of these circumstances include hardships like natural disasters, illness, death in the family and job loss. Expected events such as weddings, big celebrations, births and education are additional instances in which financial services can be demanded.

4.3 Client Level Demand

The low level of financial literacy in rural areas, as reported by the FinScope 2009 study, is staggering. Less than 10% of the rural population knew what the following finance related terms meant: savings account, money lenders, interest on loans, insurance, debit card, interest on savings, exchange rate and bank charges / service fees. Just under 50% knew what a bank was, with 21% having heard of it but not knowing what it meant. The terms that were most widely understood were profit and *Vale*. As *Vale* involves buying on credit using a respected record book, the data shows that 76% do have an idea of the concept of basic credit, if not an understanding of more technical terms related to financial services in general. Complete results of the financial literacy questions are presented in Figure 4.5.

Figure 4.5: Financial literacy in rural areas[8]



Source: FinScope 2009.

Within the context of low financial literacy, Table 4.7 shows how rural people cope with a variety of hardships. Generally, when faced with the unexpected destruction of property, a serious illness in the household, a flood, a drought, or the death or job-loss of a wage earner, rural dwellers borrow money from friends and family or sell assets (including agricultural crops and livestock). In terms of the demand for formal financial services to deal with hardships, at first glance it might appear that it is very low (rates for borrowing or withdrawing money from a financial service provider were nearly 0% regardless of type of hardship). However, this likely has more to do with the lack of financial literacy among the rural population and, as discussed in later chapters, limited access to financial services.

[8] *Xitique* is an informal savings system practiced in Mozambique, known internationally as merry-go-round or rotating savings and credit associations (ROSCAS).

Dating back to Portuguese colonial rule, *Vale* refers to buying on credit by signing a widely respected official record book to acknowledge a debt.

Table 4.7: Methods of coping with unanticipated events in rural areas[9]

Coping with Hardship	Theft, fire or destruction of household / property	Serious illness or accident of a member of the household	Flood destroying house or property	Drought	Death of main wage-earner	Illness or accident so that main wage-earner can no longer work	Loss of job of main wage-earner
Borrow money from family / friend	18%	14%	11%	10%	10%	10%	5%
Sell assets / dispose of agricultural crop / livestock	15%	10%	9%	11%	5%	7%	2%
Don't Know	8%	6%	6%	10%	8%	5%	3%
Ask for donations	9%	2%	13%	14%	2%	1%	1%
Cut down on household expenses	9%	4%	6%	3%	2%	2%	2%
Ask for assistance from religious group	5%	3%	4%	5%	5%	2%	1%
Postpone plans to pay for something else	2%	3%	2%	2%	1%	2%	1%
Borrow money from employer	1%	1%	1%	1%	1%	1%	0%
Withdraw savings from bank	1%	1%	1%	1%	0%	0%	0%
Borrow money from bank	1%	0%	1%	1%	1%	0%	0%
Take out savings with other financial service provider	0%	1%	0%	0%	0%	0%	0%
Borrow money from *Xitique* members	0%	0%	0%	0%	0%	0%	0%
Borrow money from money lender	0%	0%	0%	0%	0%	0%	0%
Cash in other financial instruments – e.g. T-bills, shares, bonds	0%	0%	0%	0%	0%	0%	0%
Claim insurance	0%	0%	0%	0%	0%	0%	0%
Borrow money from a non-bank financial institution	0%	0%	0%	0%	0%	0%	0%

Source: FinScope 2009.

Rural people were slightly more likely to borrow money from family or a friend for an anticipated event than to cope with a hardship. However, the most common means to deal with an anticipated event was to sell assets (31% in the case of weddings, 27% for a big celebration, 30% for the birth of a child and 27% for primary and secondary school expenses). Again, use of formal financial services was almost non-existent, most likely due in part to the lack of supply in rural areas. Potential demand for these services does exist since respondents reported borrowing money and selling assets such as livestock (an alternative repository for savings) to deal with anticipated events (see Table 4.8for complete results).

Table 4.8: Methods of dealing with anticipated events in rural areas

Dealing with Anticipated Events	Wedding	Big celebration	Birth of a child	Primary or Secondary School Expenses	University fees of a close relative
No response / Not Applicable	26%	27%	23%	25%	50%
Sell assets / dispose of agricultural crop / livestock	31%	28%	30%	27%	14%

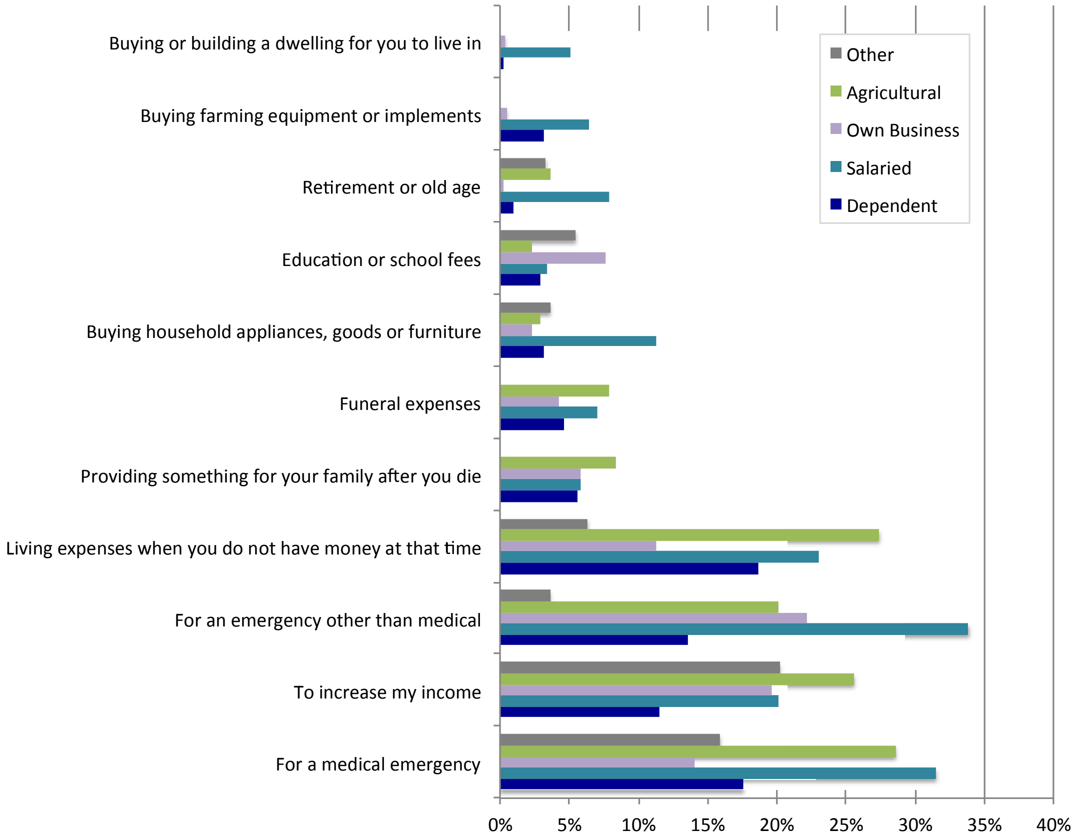
[9]Less than 5% reported using any of the methods to deal with the following hardships: funeral for family member outside of the household; upkeep of family members outside of the household; Increase in fuel prices; theft, fire or loss of vehicle.

Borrow money from family / friend	20%	19%	20%	16%	9%
Other	6%	9%	6%	14%	15%
Cut down on household expenses	11%	10%	11%	10%	5%
Ask for assistance from religious group	5%	4%	5%	3%	3%
Postpone plans to pay for something else	4%	4%	5%	4%	2%
Claim insurance	4%	4%	4%	4%	3%
Ask for donations	2%	2%	3%	2%	2%
Use Family account	1%	2%	2%	2%	0%
Withdraw savings from bank	1%	1%	1%	1%	1%
Borrow money from employer	1%	1%	1%	1%	1%
Borrow money from money lender	0%	0%	1%	1%	0%
Borrow money from a non-bank financial institution	0%	0%	0%	0%	1%
Borrow money from *Xitique* members	0%	0%	0%	0%	0%
Borrow money from a commercial bank, a microfinance institution or from a microbank	0%	0%	0%	0%	0%
Take out savings with other financial service provider	0%	0%	0%	0%	0%
Cash in other financial instruments – e.g. T-bills, shares, and bonds.	0%	0%	0%	0%	0%
Apply for government grant	0%	0%	0%	0%	0%

Source: FinScope 2009.

Figure 4.6 shows reasons FinScope 2009 respondents gave for saving. The data are separated by primary income source to indicate the different levels of demand for savings, given a variety of needs. 31% of salaried and 29% of agricultural groups reported a medical emergency as a reason to save versus 18% for dependent and 16% for own business groups. The agricultural group was more likely to use savings to increase income (26% compared to 20% or less for other groups). 34% of the salaried group reported emergencies other than medical as a reason for saving, over 12% greater than any other group. Perhaps due to the seasonality of their income, 27% of the agricultural group indicated that saving served for covering living expenses at times of low income (just 11% of the own business group reported the same).

Figure 4.6: Reasons for saving in rural areas by primary income source[10]

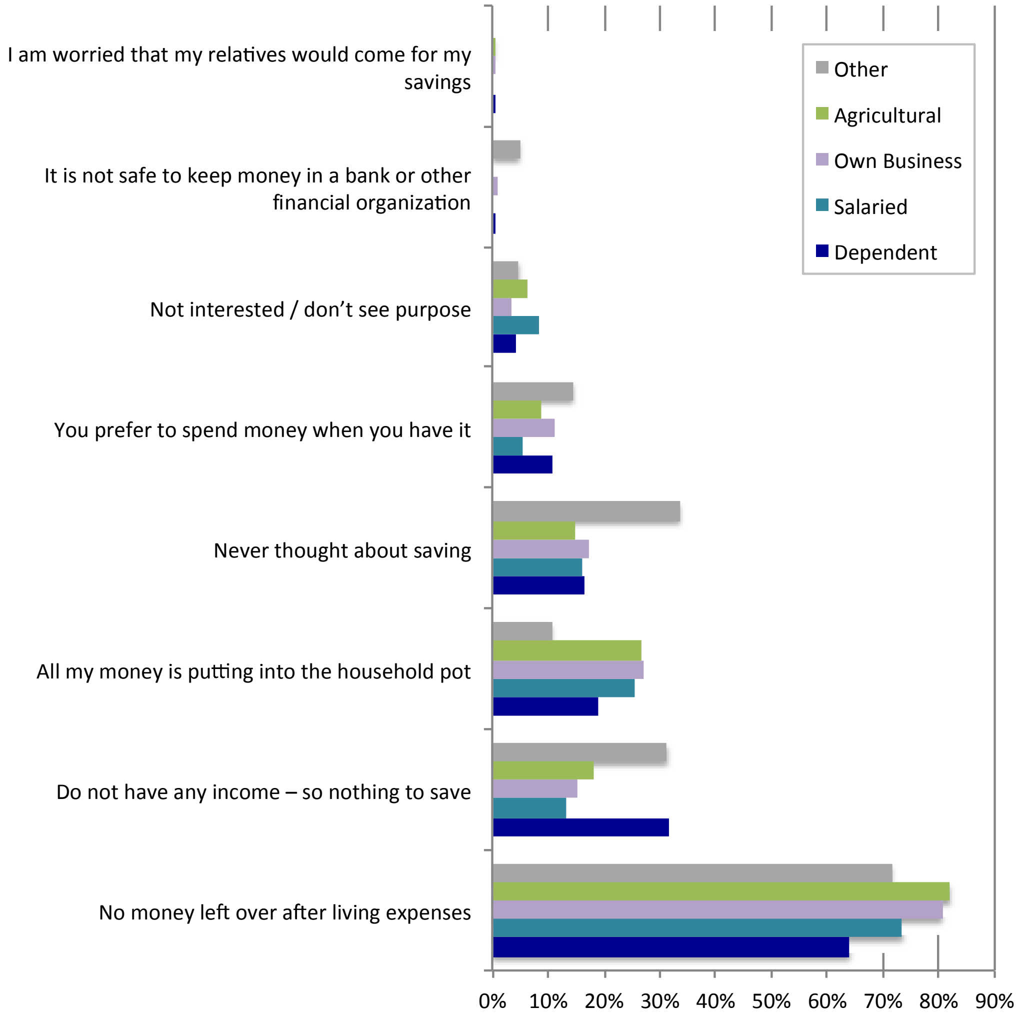


Source: FinScope 2009.

Every much as interesting as the reasons rural people do save are the reasons they report for not saving. Although small proportions of each income group reported that they didn't save because they didn't see the purpose or hadn't thought of it, the main reasons for not saving were lack of income and not having money to save after paying for living expenses. Over 70% of all but the salaried group reported not having money left after paying for living expenses. Even 64% of the salaried workers indicated this. Figure 4.7 details the reasons for not saving by income source.

[10] The following responses were reported by less than 5% of all groups: buying a bicycle, motorcycle, car, truck or other transport; a wedding or dowry; buying a dwelling or land to rent out; farming expenses such as seeds or fertilizer or fishing expenses such as nets or a boat; starting or expanding a business; buying livestock; acquiring land; holidays or travel; other.

Figure 4.7: Reasons for not saving in rural areas by primary income source[11]



Source: FinScope 2009.

When rural people do save, they tend to keep their money somewhere inside their homes (45% of the agricultural and 44% of salaried groups, for example). Salaried workers are by far the most likely to save through banking products at 26%, most likely tied to the fact that public workers are required to receive their salaries through the banking system (seeTable 4.9for complete data).

Table 4.9: Forms of saving in rural areas by primary income type

	Dependent	Salaried	Own Business	Agricultural	Other
Save at Home	24%	44%	31%	45%	35%
Save through informal schemes	14%	14%	12%	6%	5%
Save through banking products	2%	26%	2%	2%	0%
Save through other formal institutions	0%	0%	0%	0%	0%

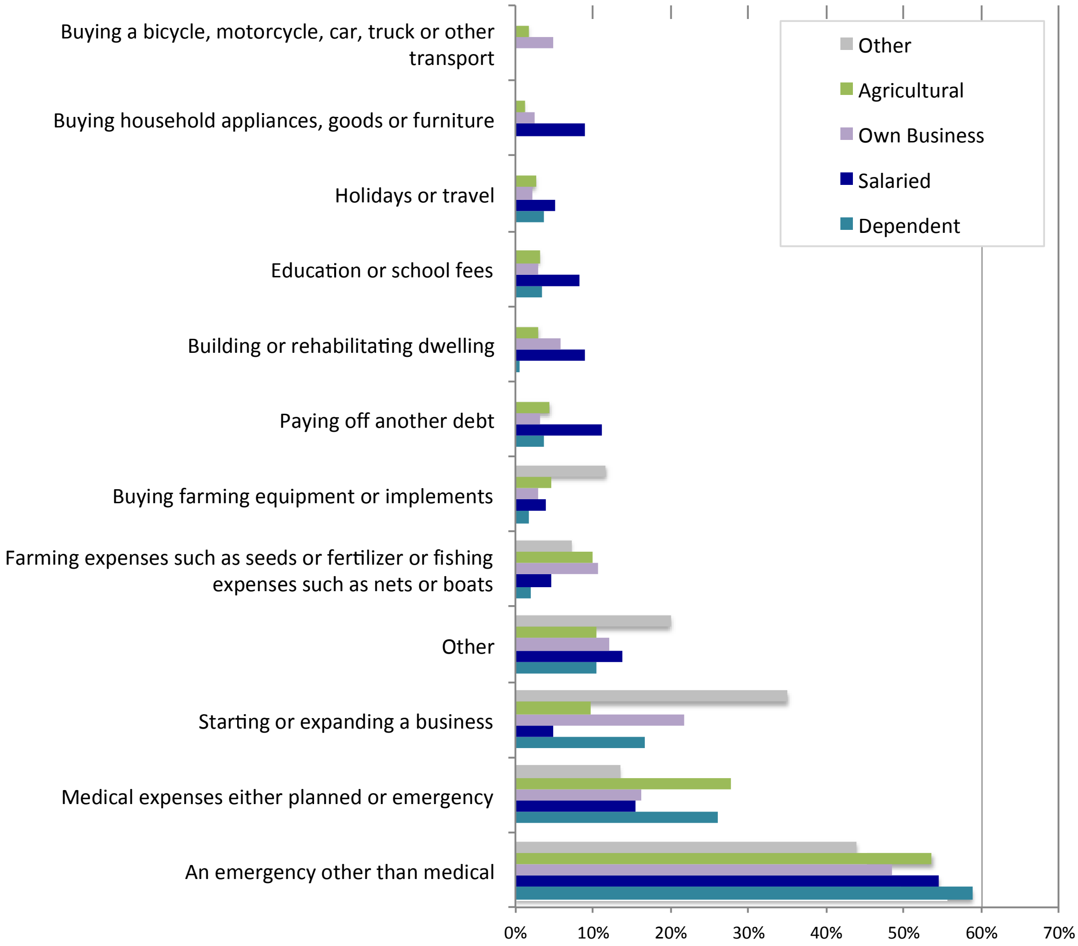
Source: FinScope 2009.

A non-medical emergency is by far the most often cited reason for all income groups to have a loan (59% of dependent, 55% of salaried, 54% of agricultural and 48% of own business

[11]The following responses were reported by less than 5% of all groups: buying a bicycle, motorcycle, car, truck or other transport; a wedding or dowry; buying a dwelling or land to rent out; farming expenses such as seeds or fertilizer or fishing expenses such as nets or a boat; starting or expanding a business; buying livestock; acquiring land; holidays or travel; other.

groups). Next were medical expenses and starting a business. Much like in the case of savings, reasons for having a loan that were not related to emergencies received limited response. For example, no more than 11% of any group reported agricultural expenses or investments as a reason for having a loan. Even fewer respondents indicated building or improving a dwelling, educational fees, buying household goods or means of transportation as a reason for credit. This is presented in more detail in Figure 4.8.

Figure 4.8: Reasons for having a loan in rural areas by primary income type[12]



Source: FinScope 2009.

[12]The following responses were reported by less than 5% of all groups: buying livestock; family celebration e.g. wedding or dowry; buying a dwelling or land to rent out or for another person to use; buying a dwelling to live in; putting money or goods into someone else's business; and buying land.

4.4 Summary

The following points summarize the profile of the rural population in Mozambique and its demand for financial services:

- Most of the rural population is located in the north of Mozambique. It has low levels of education and income. Primary sources of income are from agriculture and own businesses, with a very small percent receiving salaries and wages. The majority live in a house owned by themselves or a family member, however only a small minority have a cellphone. Public transport is unavailable to around half of rural dwellers, as is a food market. Election cards are the most common form of identity documentation in rural areas.

- The vast majority of agricultural operations in Mozambique are small farms. There is very little use of advanced production practices and technologies, including irrigation, fertilizers and pesticides.

- Financial literacy is low, both in terms of broad concepts and specific concepts related to financial services.

- Rural dwellers are most likely to borrow informally from a friend or a family member or sell assets to cope with a hardship or deal with anticipated and unanticipated events. For the latter type of events, they also rely on donations.

- The most common reasons for rural people to save are tied to emergencies, income generation and to offset seasonality of income. People receiving their primary income from agriculture or salaries were most likely to report these reasons, followed by the own business group. Those that do save mostly keep their savings in their homes.

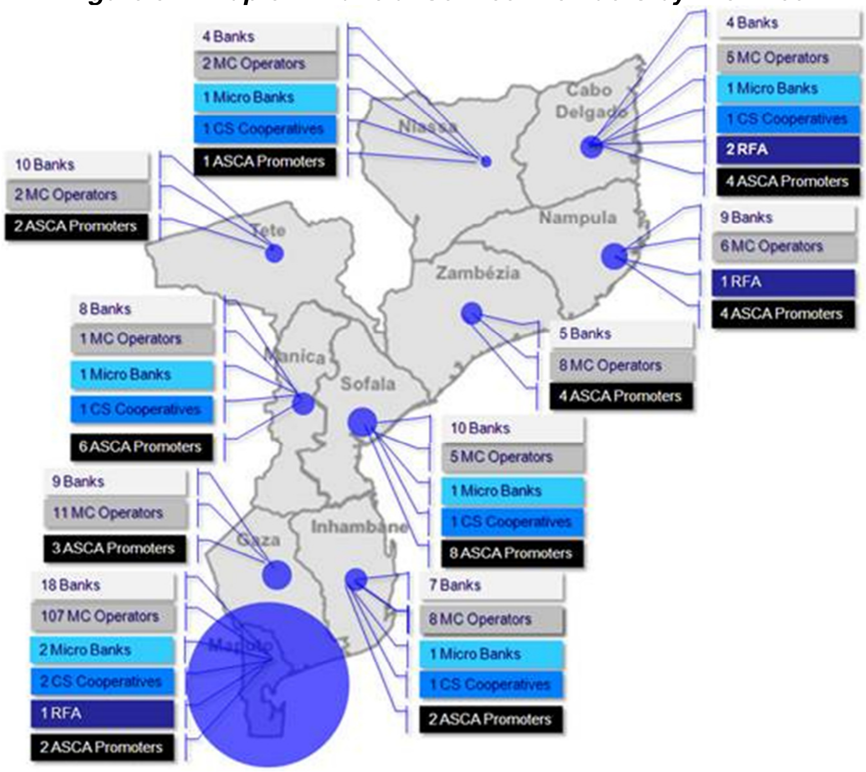
- The biggest single reason for taking a loan is for anon-medical emergency. Very few rural dwellers report other reasons for taking a loan, such as starting or expanding a business, investing in agricultural inputs or education, or purchasing household goods or assets.

5. SUPPLY OF AGRICULTURAL AND RURAL FINANCIAL SERVICES

5.1 Overview of Financial Sector

The Mozambique financial sector is regulated by the BoM and includes a variety of actors. In this chapter, the financial institutions were grouped in the following categories: commercial banks, microbanks, credit cooperatives, microcredit operators and rural financial associations[13]. Additionally we have also included other types of community based organizations such as ASCAS, individual agents and market linkages institutions. The following table highlights the number of each type of institution by province.[14]

Figure 5.1: Map of Financial Service Providers by Province



Source: ICC, 2012.

In addition to the actors mentioned above, the Mozambique agricultural and rural financial sector also includes credit from outgrower companies, commercial advances for traders and producers, informal agents as well as government funds. These suppliers of financial services, along with wholesale lenders, coordinating bodies and the financial system infrastructure, are each discussed in more detail in this chapter.

[13] Thought the Banking Law does not foresee this category, we have created this category because their model is different from the other types of institutions.

[14] This figure does not include market linkage institutions.

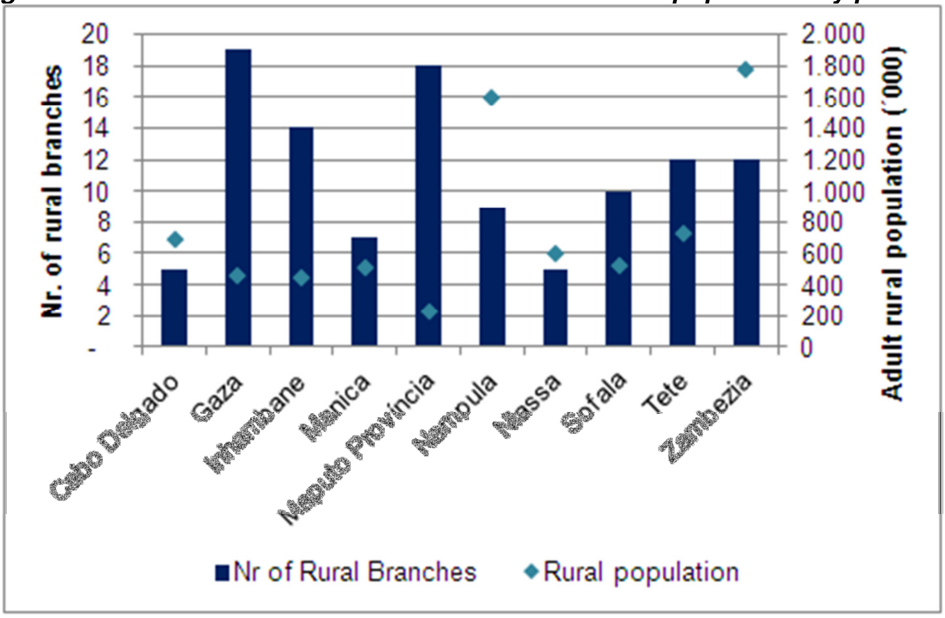
5.2 Retail Financial Service Providers

5.2.1 Commercial Banks

In Mozambique there are 18 commercial banks registered with the Bank of Mozambique that offer a wide range of financial products. Of these, there are four commercial banks dedicated to microfinance: Banco Procredit SA, Banco Socremo de Microfinanças SA, Banco Oportunidade de Moçambique SA (BOM) and BancoTchuma, SA.

Of the 462 commercial bank branches in Mozambique, 111 are located outside of provincial capitals. Operating throughout 58 of the country's 128 districts, these branches serve predominately rural populations. Thus, approximately 24% of the commercial bank branches are in rural districts (BoM, 2012). Figure 5.2 displays the total rural branches by province and compares the totals to the number of rural people living in each province.

Figure 5.2: Rural commercial bank branches and adult population by province



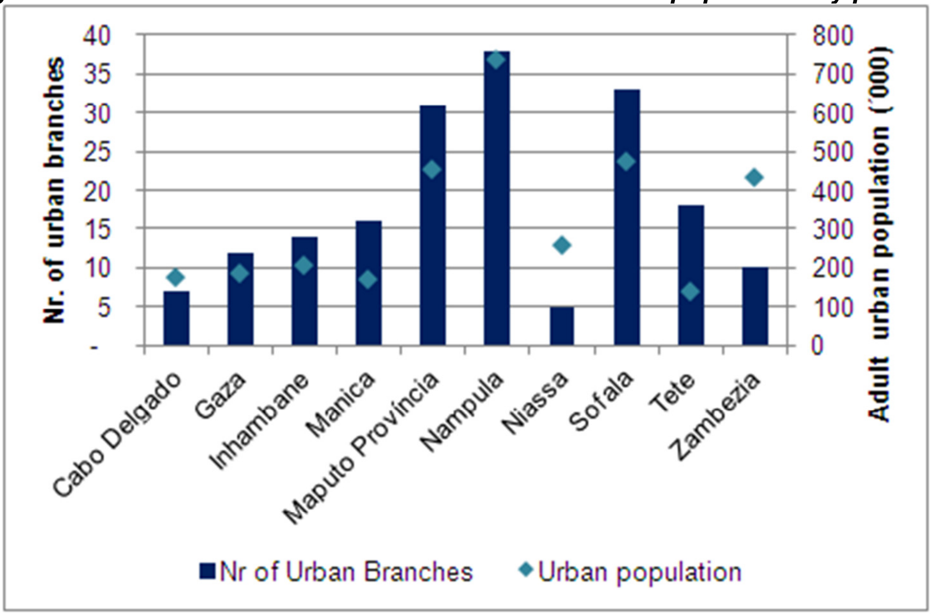
Source: ICC based on BoM and FinScope data, 2012.

As can be seen in the graph above, there is no consistent relationship between the number of branches in the districts and the total rural populations. The 3 provinces in the south (Maputo, Gaza and Inhambane) have a disproportional number of rural bank branches. Paradoxically, the provinces with the largest rural populations (Nampula and Zambézia) have fewer branches than the less populated southern provinces.

In taking a look at the data in the following figure, it is clear that the number of urban branches is more closely related to the urban populations at the provincial level than in the rural case. Nampula, for example has the largest urban population and also has the largest number of urban bank branches.[15]. See Figure 5.3 for more detail.

[15] Maputo City was not included in the comparison since it has no rural areas.

Figure 5.3: Urban commercial bank branches and adult population by province



Source: ICC based on BoM and FinScope data, 2012.

Not surprisingly, the average number of adult people served per branch is about four times higher in rural areas (84,175)compared to urban areas (21,519). The table below demonstrates that this disparity exists in each of the provinces except Maputo Province.

Table 5.1: Adults per bank branch in rural and urban areas by province

Province	Num. of Adults per Branch (Rural)	Num. of Adults per Branch (Urban)
Cabo Delgado	138,170	24,580
Gaza	24,190	15,470
Inhambane	32,440	14,480
Manica	73,980	10,670
Maputo Province	13,040	14,630
Nampula	177,980	19,370
Niassa	120,740	51,080
Sofala	52,870	14,330
Tete	60,370	7,570
Zambezia	147,980	43,020

Source: ICC based on BoM and FinScope data, 2012.

The number of agencies has increased in recent years, in large part due to the rapid expansion of some banks, especially Banco Internacional de Moçambique (Millennium BIM) and Banco Comercial de Investimentos (BCI).

All of the commercial banks in Mozambique finance agricultural production through their standard loans. However, as commercial banks have expanded, they have designed specific products aimed at the sector, such as lines of credit. That is the case with Banco Terra, which has begun offering credit all along the value chain, and Standard Bank, which has created a department specializing in agricultural finance.

The table below shows the main characteristics of agricultural loans offered by the above mentioned commercial banks.

Table 5.2: Commercial bank agricultural loan characteristics

	Banco Terra	Procredit	BOM	Tchuma
Loan amounts	1.000.000 – 2.000.000 MT	100.000 – 1.000.000 Mt	> 5.000 Mt	n/a
Loan Term	5 years	36 months	9 months (for group loans) and 12 (for individuals)	24 months
Interest rate	27%pa	2.7% pm	3% pm	5% pm

Apart from the products mentioned above, some commercial banks have credit lines for agriculture as shown in the box below.

Lines of Credit for Agriculture

Poultry: BCI has offered a total of 30 million Mt. in lines of credit to 37 poultry producers operating in Maputo City and Province since 2010.

Horticulture: Millennium BIM offers lines of credit to horticulture producers. Starting in 2011, the bank made 28 million Mt. available in lines of credit to 19 producers in Maputo Province and Gaza.

Revolving Fund: BCI and Millennium BIM have provided 64.7 million Mt. in lines of credit from revolving funds to 194 cereal and horticulture producers in the Maputo Province and Gaza.

Standard Bank/GDM/AGRA: Standard Bank manages $25 million in horticulture lines of credit to private sector businesses in Nampula and Sofala as well as 2,400 small producers of maize, ginger, beans and pineapples.

All commercial banks play an important role in receiving savings deposits in rural areas. However, the use of normal distribution channels, that is,where clients have to visit a physical branch to make deposits and withdrawals, has resulted so far in very few rural clients for these banks. As will be discussed in the next chapter, most people have to travel long distances to reach a branch. The BOM model, in which special vehicles travel to communities periodically to offer financial services, has had a positive impact in the communities that it has reached so far.

BOM's Partnership with P4P

Banco Oportunidade is financing 10 farmers associations that include around 10,500 farmers selling their maize production under the P4P (see Chapter 7) in collaboration with some partners such as CLUSA, ADRA and World Vision). The program started in 2011 and has expanded in 2012 to 3 additional provinces.

Branch	Num. of Farmers Associations	Num. of Farmers	Tons contracted	Partner
Chimoio	4	2,101	390	CLUSA
Ulongwe (Tete)	2	5,033	480	CLUSA
Mocuba (Zambézia)	2	500	360	ADRA
Gurúe (Zambézia)	2	2,850	480	WV
Total	10	10,484	1,710	

In terms of outreach, it is difficult to obtain information from commercial banks in relation to the number of clients in their portfolios. Nevertheless, in the case of the commercial institutions active in microfinance, this information is available to the extent to which they report it regularly to the Mozambican Association of Microfinance Operators (AMOMIF). The following table summarizes the key information from these institutions with regard to their portfolios on a national level.

Table 5.3: Portfolio statistics of the 4 commercial banks[16] dedicated to microfinance (June, 2011)

Number of Clients	42,796
Credit Portfolio Value (000 Mt.)	1,859,312
Number of Depositors	241,752
Volume of Deposits (000 Mt.)	1,834,131
Insurance Clients (BOM only)	9,499

Source: ICC, 2012.

As can be seen from the table, the total volume of deposits is very close to the volume of credit (with ration of 0.99 deposits volume/credit portfolio), which shows that commercial banks dedicated to microfinance have a low dependency on external funds to finance their credit operations. However, this ratio is lower than that of the commercial banking sector as a whole (1.25), indicating that they rely more on donor/investor funding than other commercial banks for capital for making loans.

The main constraints to commercial banks in reaching rural areas are:

Operating Costs: The operating costs of Mozambican commercial banks are high on a per client or per transaction basis. This means that each branch needs to increase the volume and/or value of its transactions, relative to its costs for it to be profitable, or just break even. Given that most transactions are likely to be small in low-income rural areas, it is difficult for them to break even, with the population density also being low.

High Cost of Money Movements: Moving cash between branches in order to manage cash flow and maximize return on capital is risky and expensive.

Poor Infrastructure: Telephone connectivity is limited in many towns, making operating in rural areas difficult for financial institutions, especially as banks are more and more reliant on "on-line" systems. Electricity is still unavailable or unreliable in many rural areas. Furthermore, inadequate road and water infrastructure retard the expansion of commercial bank services in rural areas.

Human Resources: Finding staff in rural areas with the required experience and qualifications is difficult. Additionally, educated professionals often demand significant premiums to work in rural areas.

Legislation: Some banks are of the opinion that the elimination of fees on deposits due to Decree 5/2009 will make operations in rural areas unsustainable. As a result, some banks have closed some of their branches in areas considered least profitable.

[16] As stated above, there are 4 commercial banks dedicated to microfinance: Banco Procredit, Banco Socremo, Banco Tchuma and Banco Oportunidade de Moçambique

Cell-Phone Based Financial Services or *Mobile Money*

Carteira Móvel SA launched Mozambique's first cell-phone banking service, mKesh, in 2011. The venture is 70% owned by the telecommunication operator mCel and 30% by IGEPE. mKesh allows clients to open accounts from which they can send and receive money transfers as well as pay for services. The transactions are either carried out using their mobile phone or by visiting one of the mKesh agents or mCel stores throughout the country. Clients can also carry out transactions with non-clients by sending them a password that allows them to receive the money from an mKesh agent. Transactions can range from 50 to 25,000 MZM, for which mKesh charges a transaction fee of between 10 and 50 MZM.

At the end of September 2011, mKesh had 2,728 agents serving 45,000 clients throughout the country, with the majority being in Maputo (1635), Sofala (526) and Nampula (324). The seven other provinces had between 4 and 70 agents each. Challenges for developing the business have included working within a developing regulatory environment for mobile banking, recruiting personnel with experience in the field as well as significant start-up and advertising expenses. Future plans call for continued expansion to new districts in addition to the development of new services, including the possibility of offering savings accounts. Integration with ATM's and accounts from other banks may also be on the horizon.

The other wireless communications operator, Vodacom, is also developing cell-phone based financial services to compete with mKesh throughout the country.

5.2.2 Micro Banks[17]

After Decree 57/2004 created new legal forms of financial institutions, the BoM authorized 8 micro banks to operate. Most of them initiated their operations with the support of FARE under its Rural Finance Support Program. One of them, Microbanco Malanga closed its doors after a series of problems, leading to insolvency. Two of the micro banks are located in Maputo city and the others are in Inhambane, Manica, Sofala, Cabo Delgado and Niassa

Up until now, most of these banks have only offered credit products (micro enterprise loans and consumer loans). None of them are offering agricultural loans. CCPM is the only micro bank to offer savings/deposit facilities to its clients. Letshego, a consumer loan institution, is the sole provider of insurance products among the group.

The limited services offered by micro banks is due to in part to a provision in the Microfinance Regulations that requires micro banks to inform the BoM 90 days in advance of its intention to collect deposits from the public. The BoM cannot authorize these operations if it determines that the micro bank's internal organization and performance do not indicate that it can manage deposits competently.

Their outreach is still very limited, as can be seen in the table below[18].

Table 5.4: Portfolio statistics of micro banks (June, 2011)

Number of Clients	4,943
Portfolio Value (000 Mt.)	188,885
Number of Depositors	1,177
Volume of Deposits (000 Mt.)	68,000
Insurance Clients (Letshego only)	1,855

Source: ICC, 2012.

[17] Please refer to Table 3.2

[18] These data refers only to 5 micro banks, as the others did not provide information.

Micro banks face bigger constraints than commercial banks in terms of operating in rural areas. Since most of them are not yet collecting deposits, they depend almost exclusively on external funds, primarily from donors and shareholders. As a result, their portfolios are very small(an average of around 1,000 clients each),and the transactions costs are high. On the other hand, the interest rates of micro banks are in general lower than those applied by commercial banks dedicated to microfinance, implying that it would be very difficult to them to break even if they continue with this trend. All these aspects seriously limit their capacity to expand and grow.

5.2.3 Credit Cooperatives[19]

According to the BoM data, there are 7 Credit Cooperatives distributed in 5 provinces, namely Maputo city (2), Gaza (1), Tete (1) and Nampula (2).

Three out of the four credit cooperatives for which data was available are offering savings in addition to credit. Data related to the details of their specific products and target markets are limited, but most of them serve rural clients, some of whom are involved in agriculture. As is the case with micro banks, they also have very limited outreach. The available information on their portfolio characteristics is summarized in the table below.

Table 5.5: Portfolio statistics of select credit cooperatives (June, 2011)

Number of Clients	1,731
Portfolio Value (000 Mt.)	105,172
Number of Depositors	6,308
Volume of Deposits (000 Mt.)	12,803
Insurance Clients	0

Source: ICC, 2012.

The deposit/credit ratio is as low as 0.12, which demonstrated that the essence of credit cooperatives in Mozambique is different from other cooperatives worldwide, where the ratio for 2011was much higher (0.8 worldwide and 0.86 in Africa)[20]. Taking into account this factor and the low levels of outreach, credit cooperatives are very far from reaching self-sustainability, even taking into account that their cost structure is lower than the other types of MFI mentioned above.

5.2.4 Microcredit Operators[21]

According to BoM data, in August 2011, there were 155 microfinance operators in Mozambique. They include NGOs and associations, as well as individuals who have obtained licenses from the central bank to be engaged in microcredit activities. The latter make up around 20% of microfinance operators. The vast majority operate in Maputo City and Province (70%)[22]. Manica, Tete and Niassa are the least served provinces, with only 1, 2 and 2 operators, respectively.

Due to the nature of their licenses, these institutions can strictly offer only credit products. Again, information about the portfolios of this type of financial service provider is limited. Only a limited proportion (3 out of 23) indicated their product mix included agricultural loans. In terms of insurance, only one institution (Hluvuku) offers credit insurance to its clients

[19] Please refer to Table 3.2

[20] Source: Mix Market

[21] Please refer to Table 3.2

[22]Disaggregated data for Maputo City and Maputo Province are not available.

through its partnership with EMOSE. The table below presents key outreach indicators for selected microcredit operators.

Table 5.6: Portfolio statistics of selected microcredit operators (June, 2011)[23]

Total Number of Clients	18,881
Total Portfolio Value (000 Mt.)	170,662
Number of Depositors	-
Volume of Deposits (000 Mt.)	-
Insurance Clients	5,141

Source: ICC, 2012.

As can be seen in the table above the 23 microcredit operators that reported their data have a very limited outreach. In average each operator has 821 clients and an average portfolio of 720, 000 Mts.

Main constraints

Dependence on Donors: The microcredit operators have an enormous dependency on donors. This situation is made worse when payments from donors lag behind. The biggest microcredit operators are considering or have already drafted business plans to enable them to capture deposits so that they have additional sources of funding to finance their portfolio. However, given the internal capacity issues, strict reporting requirements and limited access to finance to pay for the transformation process (including the investment in staff, equipment, security, more appropriate systems and infrastructure), it is unlikely that it will happen in the short term.

Lack of a Credit Bureau for Microcredit Operators: Microcredit operators have no efficient means of determining if a client is also a client of another financial institution. Only institutions subject to prudential supervision are part of the credit bureaus that are supervised by the central bank. As a result, there are signs of over indebtedness as some clients request loans from one institution to pay debt owed to another.

Lack of Information Systems: Many microcredit operators lack sophisticated management information systems that could increase their operating efficiency, principally due to the costs associated with their implementation and maintenance. Additionally, several are using different systems from various providers, making it difficult to share the acquisition and maintenance costs.

5.2.5 Government Funds

There are 14 government funds dedicated to social, sector and infrastructure development. The sector-specific funds focus on a variety of areas including agriculture, fishing, mining, housing and tourism, all of which have some financing activities. Of these funds, four are active in financing income-generating activities, as shown in the table below.

[23] Data from 23 microfinance operators

Table 5.7: Summary of government funds

Fundo de Desenvolvimento Agrário (FDA)	The FDA aims to strengthen the agricultural sector. Though not a significant part of the fund's activities, it offers credit for agricultural input distribution, processing infrastructure and product commercialization. In terms of support for rural microfinance development, the FDA has committed to working with the FDD (see below) and financial service providers to offer credit to farmers and explore micro-insurance with the National Institute for Disaster Management and Early Warning and insurance providers.
Fundo de Fomento Pesqueiro (FFP)	The FFP works to support the development of fishing infrastructure and equipment. Together with FFPI (see below) and financial service providers, FFP facilitates access to credit for artisan fishermen. The fund's strategy is to establish program contracts with specialized financial institutions whenever possible, thus serving as a wholesale lender. Additionally, it aims to work with the Institute for Development of Small-Scale Fishing and the National Institute of Aquaculture for the provision of extension services in all districts with fishing activities.
Fundo de Fomento à Pequena Indústria (FFPI)	The FFPI provides financial services to SME's in rural areas. Traditionally it has provided retail credit to small entrepreneurs in areas not served by other financial institutions. It has previously targeted fishermen, offering loans and leasing programs. The fund's strategy calls for providing support services to rural areas together with the Institute of Small and Medium Enterprises and the Institute for the Development of Small Scale Fishing, supporting the administration of the FDD and transforming the fund to an investment company.
Fundo de Desenvolvimento Distrital (FDD).	The FDD, previously known as the Local Investment Initiative Budget (OIIL), makes funds available to district governments for making loans to individuals and associations for entrepreneurial projects with the objective to create jobs and increase food security. It reported funding over 16,000 projects that created 51,957 jobs in 2010. However, its history has been troubled by low repayment rates caused by factors such as lack of understanding by borrowers that funds were loans and not grants, changes in market conditions, poor project management and the diversion of funds. For example, the repayment rate for the funds distributed from 2007-2011 was just 5.3%. The introductions of much needed management instruments, approved in 2009, have yet to be applied in many districts. The fund´s future ability to be a successful provider of financial services in districts throughout the country will hinge on, among other things, improvements in management, communication, project selection and activity monitoring (DNPDR, 2009).

All of the government funds involved in credit activities suffer from some of the same challenges. Principally, the funds have experienced difficulties in securing repayment for loans. In some cases this has been due to inadequate assessments of borrowers, poor business planning and management, changes in market conditions or natural disaster. However, in other cases, loans may not have been repaid because lenders perceived little risk of repercussion given that the funds originated from the government (MPD, 2009).

The challenges of the government funds such as FARE, FFP, FFPI and FDA include communication, equitable resource distribution and attaining adequate rates of return to be sustainable. The communication between the central offices of the funds and their partners and clients in the districts is often inadequate, impeding the funds' responses to their demands. On a similar note, the funds struggle to serve and distribute resources evenly among rural populations spread across large geographic areas. The difficulties in recoupingthe loans mentioned above severely limit rates of return from credit activities, complicating plans for some of the funds to be independent and sustainable. Furthermore, these funds generally havelow levels of sustainability as they have a strong reliance on recurrent injections of public funds to cover both operational and financial costs. Lastly, management capacity and systems remain very limited.

Outreach data for the government funds is not available.

5.2.6 Community Based Institutions: Accumulating Savings and Credit Associations (ASCAs)

ASCAs have become an important component of the Mozambique microfinance sector over the last 10 years, specialty for low-income populations in rural areas. While they vary in their characteristics and practices, individual groups generally include 15-30 members who meet periodically (normally weekly or monthly) to pool savings over a set cycle (usually 6-12 months). Depending on the sophistication of the group, the funds can be secured in a box with multiple locks and key holders and/or loaned out to members in order to earn interest. At the end of the savings cycle, the funds (savings plus interest income less expenses) are disbursed to the members. The primary motivation of group members tends to be increased capacity to save, as they find it easier to save as a member of a group than individually.

In the late 1990's in Nampula, CARE initiated the first activities to develop ASCAs in Mozambique. One of the major accomplishments of CARE, as well as other donors and partners was the formation of Ophavela, a Mozambican organization designed to promote and support ASCAs. In 2002, the Manica Development Agency (ADEM) began encouraging the formation of ASCAs in Manica with the support of Support to the Development of Private Initiatives in Agriculture (ADIPSA)[24]. Later, the methodology was adopted by the National Institute for the Development of Small Scale Fisheries (IDPPE) in their work with fishermen and coastal populations.

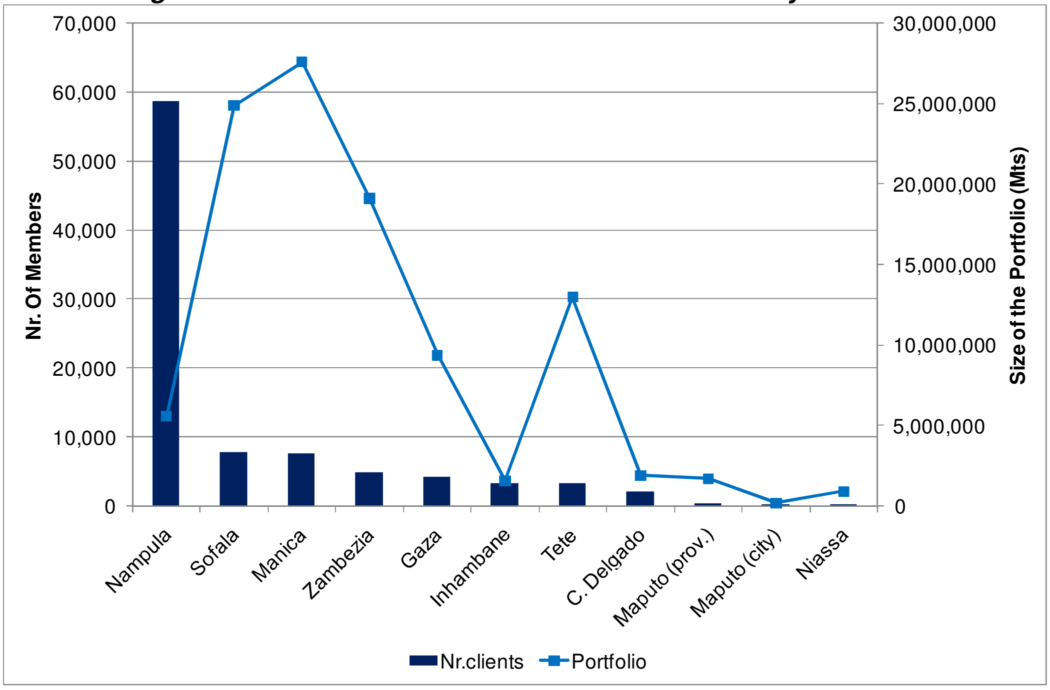
There are 21 organizations promoting ASCAs in Mozambique, with the vast majority of them being national and international NGO's. The 10-year review of ASCAs, released by FARE in March 2011, estimated that these operators support over 100,000 members of around 5,300 groups in 89 of the country's 128 districts. Ophavela in Nampula supported nearly 60% of these members. World Vision has assisted nearly 9,000 members in 4 provinces, including Nampula. ADEM, which initiated its activities in Manica and later spread to districts in Sofala, has supported over 6,000 members.

Sofala, Manica and Nampula have the highest number of the ASCA operators assisting groups. Aside from having the most operators, the provinces of Nampula, Sofala and Manica also have the greatest numbers of ASCA groups. In fact, around 66% of all groups are in the province of Nampula, where the largest operator Ophavela works.

Though Nampula has far more ASCA's than any other province, the its portfolio made up only around 5% of the national total in terms of size, according to a presentation at the 4th Annual ASCA Operators Forum. Manica and Sofala have the largest portfolios (26% an 24% of the total), followed by Zambezia, Tete and Gaza (18%, 12% and 9%). The figure below show that the average porfolio per ASCA member in Nampula is much lower than several other provinces (Sofala, Manica, Zambezia, Gaza and Tete). This signals that ASCAs in Nampula have greater depth of outreach (using the average client portfolio as a proxy measure).

[24] ADIPSA is the private sector development component of DANIDA's agricultural sector support programme.

Figure 5.4: Number of ASCA Members vs.Portfolio by Province



Source: ASCA em Moçambique 2009: Situação e Perspectiva, Eng. Antonio Zaqueu, April 2010.

The ASCAs receive technical assistance and support from a variety of actors. This support comes from sources such as projects funded by the GRM, IFAD, AfDB, FAO and WB. One of the largest is the RFSP, implemented by FARE and discussed in more detail in a later chapter. ASCAs are also assisted by bilateral donors such as SNV and international NGO's like CARE, HIVOS and Oxfam NOVIB. Additionally, ASCAs receive support from local and national level government entities like the National Directorate for Promotion of Rural Development (DNPDR) and IDPPE.
One significant challenge for ASCA's is sustaining activity once operators and other actors complete their assistance to the group. An approach that has demonstrated potential in Nampula is the use of *animadores comunitarios* by Ophavela. In this arrangement, locals are trained and placed in charge of encouraging and supporting the ongoing activity of up to 7 ASCA's. However, this approach is not free of challenges: inadequate organization among ASCA's, governance issues arising from members assuming new roles and lack of financial strength to independently build the capacity of the *animadores* (FARE, 2011).

Despite levels of success, most ASCAs in Mozambique presently face significant constraints:

Short Savings and Credit Cycles: Most savings cycles are 12 months or less, which require approximately 2 months for savings to accumulate and credit to be distributed. At the end of the cycle credit must be repaid around 2 months before the accumulated savings are paid to members. This creates credit cycles of 6-8 months or less, which are not practical for a host of borrowing needs, especially for longer-term investments.

Excess Liquidity: In some cases savings vastly exceed the demand for credit, creating excessive liquidity for groups. Keeping this money in safe boxes is problematic not only for security reasons but also because the groups receive no return on the money.

Lack of Risk Assessment Capacity: Most ASCAs lack the ability to effectively analyze the risk of borrowers, especially those from outside the group. This increases risk to the groups if they make such loans and hinders their potential return on savings.

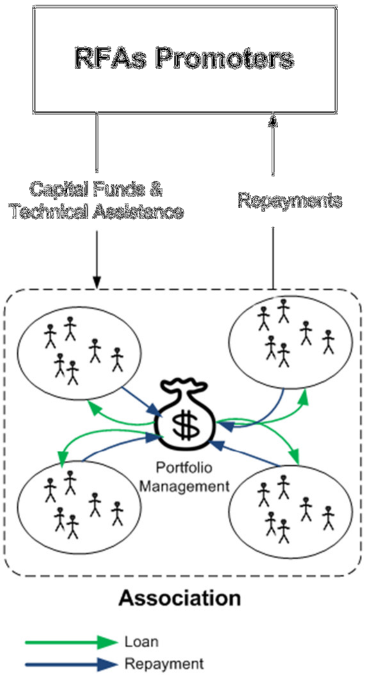
Dependence on External Support: As mentioned above, many ASCAs rely heavily on the support of external actors for impartial advice, conflict resolution, technical assistance, enforcement of rules and prevention of future problems. In many cases, when this external assistance ends, the supported ASCAs fail.

Informality of the Model: The informal nature of ASCAs is one of the strengths of the model in so far that it allows the groups to "spontaneously" form and build trust among members. However, as the groups develop, informality prohibits them from taking advantage of a variety of formal sector services, such as bank accounts and refinancing (FARE, 2011).

5.2.7 Community Based Institutions: Rural Finance Associations

The Rural Finance Association (RFA) methodology was first introduced in Mozambique in 1998 with the creation of the *Caixa Comunitária de Crédito e Poupança* (CCCP) in the Maputo City by IRAM. Its model is illustrated below.

Figure 5.5: RFA's model



The CCCP borrowed money from IRAM and then made retail loans to 'solidarity groups' of five people that are collectively responsible for the loans. Later it expanded to Maputo Province, Gaza and Cabo Delgado. The CCCP now operates under the name *Caixa Comunitária de Microfinanças* (CCOM). It operates 6 agencies in Cabo Delgado, 5 in Maputo and one in Gaza. In terms of products, CCOM offers a variety of loans types, mostly agricultural and commercial, to groups of 3-5 as well as individuals. The terms of the loans are between 4-9 months with monthly interest rates between 3% and 4.5%. On top of group solidarity requirements, CCOM requires mandatory prior savings of 20% of loan values by the borrowers. Future plans include expansion to Xai-Xai and the launch of educational programs for clients.

UNACREDIT was formed when 13 of 36 of the CCOM associations in Maputo split off to create a new RFA.

The *Redes de Caixas Rurais de Nampula* (RCRN), funded by SDC and implemented by IRAM, also practices the RFA methodology. It supports 33 local *caixas* throughout 9 districts of Nampula, that then make retail loans to individuals, solidarity groups of 5 people and associations. Like other RFA's, its focus is on serving urban and rural people that are excluded from other financial services. Flat monthly interest rates are around 2.5% for solidarity groups and associations and 3% for individual loans.

Progresso, another RFA, works in Cabo Delgado. Much smaller than CCOM and RCRN, it offers short term (4-6 months, 2,000-10,000 Mt.) and longer term (9 months, 2,000-5,000 Mt.) credit to solidarity groups, both with 2.5% flat monthly interest. Each loan requires a savings component from the groups as a guarantee. Progresso is supported by funds distributed by FARE and the Building Inclusive Finance in Mozambique (BISFMO) project. Plans include expansion to two new districts in Cabo Delgado and promoting new rotating credit and savings groups for women.

Table 5.8: Portfolio statistics of rural finance associations (June, 2011)

Number of Clients	22,048
Portfolio Value (000 Mt.)	145,733
Insurance Clients	8,782

Source: ICC, 2012.

Main constraints

The constraints to these community based activities include:

***Weak internal capacity*:** RFA's require members to have the capacity to manage a significant amount of information. It is difficult to find members within the groups with bookkeeping skills. This challenge is compounded in the case of agricultural credit because many members demand credit at the same time, increasing the demand on the members responsible for managing accounts during such periods of high activity.

***Difficulties in Management Selection and Change*:** Highly respected members of communities are not always the most qualified to manage financial services, however their status sometimes puts them in these leadership positions. Once established in such a position, change can be difficult even if their performance is inadequate.

Reliance on External Technical Assistance: Like other community based groups, RFA's have a heavy reliance on external promoters to support their operations and solve problems. The RFA promoters typically provide technical assistance for a period of time including the training of the members of committees. In the case of IRAM, they provide technical assistance with a subsidy of 100% during the first year, which decreases in the following years to 75%, 50%, 25% and 0%.

5.2.8 Community Based Institutions: Individual Agents

Informal ***money lenders*** and, to a lesser degree, savings collectors are important financial sector actors in Mozambique. However, savings collectors are located in the market of urban areas.

Generally the money lenders issue credit in amounts of a few hundred to a few thousand dollars based on informal guarantees such as the borrower's reputation and verbal pledge of assets. Typically quite short-term in nature, the interest rates are high, but disbursement is quick, sometimes just few hours and transaction costs are minimal, including transportation costs as most borrowers live near the lenders.

The mobilization of deposits through savings collectors (known as *xitique geral* in Mozambique), has evolved in recent years in Mozambique, but primarily in urban areas, especially urban markets. The collector typically collects a daily savings deposit (of as little as 20 Mt.) and records it on a card. At the end of the month, the savings collector returns all the money collected minus one day's deposit, giving the savings collector a return of around 3.2% of the deposits collected.

Though some savings collectors also operate as money lenders - many of them are people involved in business and some are even salaried workers - there is no relation between the two services. Each one is offered separately and most of the time by different people.

The existence of money lenders and savings collectors demonstrate the unmet demand for quick access to personalized financial services that exists even in urban areas, which are generally better served by formal financial services than rural areas.

Main constraints
While individual agents dedicated specifically to offering savings services are not common in rural areas, it is worth noting the primary constraints to the use and expansion of such agents and money lenders to rural areas include:

Focus on Resolving Short-term Financial Needs: Financial services from individual agents may be appropriate for household emergencies or business cash flow. However, the high costs of capital make them impractical for long-term investment.

High Cost of Service: Those borrowing from money lenders pay 10 to 30% monthly on their loans. On the other hand, clients of savings collectors must pay 3.2% monthly to save through the *xitique geral* schemes. This level of expense makes such services unfeasible in the long term.

Risk of Unscrupulous Agents: The possibility exists for savings collectors to flee with their clients' savings. Although in the case of money lenders the default risk falls on the lender, the informal nature of the transactions also leaves the possibility of the money lenders' taking drastic action, such as violence, to recoup their money from borrowers.

Informal Collateral Requirements :In the case of money lenders, at times they require that borrowers leave their personal documents or even debit cards and pin numbers as a guarantee for the loan.

5.2.9 Market Linkage Institutions: Outgrower Companies

An important source of credit for many smallholder farmers in Mozambique is the *empresas de fomento.* These agro-processing firms have been implementing outgrower schemes for cash crops for decades. The firms typically provide smallholder farmers with inputs like fertilizer and seeds at the beginning of the planting season, agreeing on the price that the company will pay for the harvest at the end of the season. Once harvest time comes, the company pays the established price for the harvest minus the cost of the distributed inputs. Currently, the *empresas de formento* are concentrated in two crops: tobacco and cotton.

The largest tobacco *empresa de fomento* is Mozambique Leaf Tobacco (MLT). The firm buys and processes burley tobacco from over 120,000 smallholder farmers in Tete, Niassa and Zambézia. In this outgrower scheme, MLT provides fertilizers, chemicals and seed on credit that is repaid by the farmers with their harvest. The company has a processing facility in Tete. It expected to process and sell over 65,000 tons of tobacco in 2011 (Club, 2011).

The Mozambique Cotton Institute estimates that 170,061 smallholder families produced cotton in 2011 and most sold it to *empresas de fomento.*128,000 ha.of cotton were planted in 2011, producing just over 70,000 tons. Nearly 95% of this production came from smallholder farms. Three firms, Plexus, OLAM e SANAM account for 79% of the production (IAM, 2011).Table 5.9 displays the primary *empresas de fomento* in the cotton sector, their share of total production and the principal provinces where they work. Even a firm like JFS/SAN, with just 6% of the production, worked with over 20,000 small producers and distributed over 3 million USD in inputs in 2011.

Table 5.9: Principal Cotton Empresas de Fomento, % of National Production and Areas of Operation.

Firm	% of Cotton Production (2011)	Primary Areas of Operation
Plexus	31%	Cabo Delgado, Nampula
OLAM	24%	Zambézia, Tete, Manica
SANAM	24%	Nampula
China Africa Cotton	14%	Zambézia
JFS / SAN	6%	Niassa
S.A.M.	5%	

Source: Mozambique Cotton Institute, 2011.

OLAM specifically works with over 40,000 small producers, providing them with inputs, financing and extension services. The company has 19 warehouses nationwide. In addition to cotton, OLAM also works with the following products: cashew, peanuts, rice, sesame and wood.

Another example of a company that has outgrower schemes is Frango King, from the *African Century Group.* The company produces and sells 3.5 million chickens per year in Cabo Delgado, Nampula and Niassa, satisfying around 20% of the market for chicken in those areas. It provides inputs and support during field preparation and harvest to around 1,500 small soy bean producers that supply their production for feed production operations.

The outgrower system provides an efficient mechanism for the provision of credit to small holders. It relies on established relationships between farmers and buyers. Given the buyers' desire to secure the greatest volume possible of high quality output, the buyer has the incentive to ensure that farmers utilize inputs appropriately. Providing inputs within the existing relationship with the farmer limits the need to involve a third party financial institution. Likewise, a third party financial institution is not needed to monitor the credit during the production cycle, during which time rain can make visiting farmers in rural areas much more difficult and costly.

Up until now, very few outgrower companies have utilized third party financial institution such as cellphone companies or agents to manage the credit. One of the known examples is Mozambique Leaf Tabaco who uses Banco Oportunidade to make payments to farmers using its network of branches and mobile banks. Cell Phone companies can also play an important role in making the payments given that the outgrower companies spend a lot of money to pay thousands of farmers in person (including the cost to ensure securityfor the transportation of large amounts of cash).

Main constraints

The following are the main constraints of contract farming schemes:

Market Risk for Farmers: Farmers are vulnerable to the risk of the contracting companies not buying the harvest as agreed, sometimes a result of a poorly managed contract scheme. This can leave farmers with a crop and no market.

Side Selling Risk for Contracting Companies: Contracting companies must accept the risk that the farmers fail to honor the contract and instead sell the crops produced with the inputs from the contracting company to other buyers that offer more attractive prices.

Lack of Competition: The dominance of outgrower companies in some areas can reduce the bargaining power of producers and result in unfavorable terms for the producers. Sometimes during the growing season the market prices for crops drop below the prices negotiated at the beginning of the crop season due to market changes. In these cases, the low bargaining power of farmers forces them to accept the prices that companies are willing to pay. If the opposite happens, i.e., the price of the crop increases, outgrower companies do not normally adjust the prices as the companies constitute the only market most of the farmers have. This fact sometimes creates tension between the two parties and negatively affects what should be a win-win partnership.

Environmental Degradation: If proper steps are not taken to ensure appropriate crop rotation, participation in outgrower schemes can lead to soil fertility problems for farmers in the future.

Risk and Expense of Making Payments in Cash: Outgrower companies must make payments to thousands of rural farmers each year, many of whom have no access to financial services. This means that payments must be made in cash, at times necessitating that payments be made with helicopter or armed guards to prevent robbery during transport. Safety aside, there are significant operational costs to making so many cash payments. As noted earlier, companies that operate 'mobile money' services can play an important role in addressing this constraint.

5.2.10 Market Linkage Institutions: Commercialization Advances

A large part of agricultural commercialization is done through commercialization advances. This method is used more and more by traders and processing companies to secure products. It involves the purchasing company providing an advance for the purchase of their crop at an agreed price.

An example of a company active in offering commercialization advances is V&M Grain. It entered the Mozambican market by purchasing warehouses in central and northern parts of the country and operating a fleet of trucks to transport maize, beans and other crops from smallholder farms. The company then processes and bags the crops to be stored until market conditions are optimal either on the local or international market. Some of the crops are processed into nutrimeal and vitamin enriched food supplement.

According to V&M, the company typically commercializes the following tonnages of products on an annual basis: maize (20,000), pigeon peas (6,000), cowpeas (1,500) and ground nuts (1,500), beans (1,200) and sesame seeds (1,000) (V&M, 2012).

To purchase such quantities of crops, V&M has offered interest free credit to large traders, small traders and producer associations. These traders typically use a vehicle as collateral for the commercialization loans, while the company often works with organizations providing technical assistance to producer associations to increase the likelihood of their fulfilling agreements. Delinquencies are typically recovered from future harvests, although participants may on occasions withdraw from the scheme, necessitating the write-off of the credit.

This is just one example of a practice that is common across a variety of agricultural value chains, such as for cashews. This type of arrangement is not only a practice of large companies but also of small-scale traders operating in rural areas throughout the country.

Main constraints
The principle constraints of the commercialization advance model include:

Weak Contract Enforcement: The ability of either party to enforce a contract through the Mozambican legal system is low due to the limited capacity of local legal and judicial officials.

Established Prices: Farmers and traders are unable to take advantage of favorable changes in market conditions once the contracts are signed.

Delayed Funds: Large scale traders and processors are vulnerable to delays from their commercial banks, translating into delays in advances to smaller traders and producers.

Side Selling: As new traders enter rural areas, market conditions become more hostile and the likelihood of side selling increases. That is, producers sign a contract and receive an advance from one trader only to sell to another shortly after harvest.

Anti-competitive Behavior among Buyers: Outgrower companies and traders, in the absence of strong enforcement of anti-competitive practice law, can collude to offer farmers lower prices for their crops, typically through dividing the market up into areas in which only one company operates.

Risk and Expense of Making Payments in Cash: Just as for outgrower companies, the need to make payments in cash is risky and expensive for companies offering commercialization advances.

5.3 Wholesale Financial Service Providers

Three examples of wholesale financial service providers that work with institutions working in rural areas are FARE, GAPI and Banco Terra.

FARE was created in 1996 to offer retail credit to rural shops, mills and some other agricultural projects. Today it plays more of a supporting role to the industry, but also operates a wholesale lending program designed to encourage institutions to initiate activities in rural areas without access to such services.

From 2006 to 2010 FARE started 60 new projects with microfinance operators in districts throughout the country. The number of new projects climbed each year from four in 2006 to 22 in 2010. Beneficiaries were large commercial banks as well as small microfinance operators. According to the 2010 RFSP Impact Assessment, the majority of the operators offered retail loans with monthly interest of between 3.1% and 7.6% (FARE, 2011b).

GAPI has become an active wholesale lender in addition to its primary activity of offering financial services directly to small and medium businesses in rural areas. GAPIs wholesale lending has been directed at micro banks, especially those operating in rural areas, such as the Caixa de Poupança Postal de Moçambique, Caixa Financeira de Caia, Yingwé Microbanco, Microbanco para Desenvolvimento da Mulher (MDM-Microbanco) e Rovuma Microbanco. Additionally, it offers credit to associations of informal traders active in the agricultural sector.

Like GAPI, **Banco Terra** also offers wholesale credit in additional to its retail operations. Specifically, it offers lines of credit to microfinance institutions. Up until June of 2001 it had supplied 15 million Mt. in credit to 11 microfinance institutions. The minimum value of each credit line was reportedly 100,000 Mt. for a period of 3 years at an annual interest rate of 24%.

5.4 Coordinating Bodies

The **Mozambican Bank Association** was founded in 1999 as a nonprofit association to represent and defend the interests of its members. It strives to support the technical, economic and social activity of participating banks as well as carry out research and represent and advocate of the banking industry and its members.

The **Mozambican Association of Microfinance Operators (AMOMIF)**was formed as a coordinating body for microfinance operators. One of its initiatives has been to collect and share information from its members. However, since the participation is voluntary, its success in compiling useful data about the entire sector has been limited.

The **ASCA Forum** is an informal group of rural finance operators with the objective of sharing experiences and reflecting on best practices and challenges related to developing savings and credit groups. It typically meets at least once per year to hold a workshop, and has generally had strong participation from rural finance operators. For example, 16 of the 20 known ASCA operators participated in 2010, as well as public entities such as the DNPDR, FARE and BoM.

5.5 Infrastructure

In 1994 the BoM began developing with financial institutions the **National Payment System (SNP),** an electronic network to facilitate and reduce the risk of payments. Milestones in the system include incorporating an electronic compensation system and integrating the SNP with the GRM electronic accounts and financial management system. More recently, in 2005, the system was adapted to provide support for new electronic banking services, such as telephone banking, mobile banking and home banking.

The **Interbank Society of Mozambique (SIMO)** was created in 2009. The objective of SIMO was to centralize the processing of electronic payment networks throughout the country, such as POS's and ATM's. The initiative was an effort of the BoM and 17 participating financial institutions, 4 of which were dedicated to microfinance.

The **Central Credit Registry (CRC)** is a database managed by the BoM to record and share information provided by participating credit institutions.

Looking to the future, the BoM is working with the Ministry of Finance to finalize proposed regulation for the creation of a **Deposit Guarantee Fund** as a mechanism for strengthening the supervision of the financial system. The fund is in part designed to mitigate potential risks from international economic and financial crises.

5.6 Summary

The following summarizes the supply of agricultural and rural financial services in Mozambique;

- The country's supply of agricultural and rural finance comes from commercial banks, microbanks, credit cooperatives, microcredit operators, rural financial associations, ASCAs, outgrower companies, commercialization advances/contract farming, informal agents and government funds.

- Of the country's 462 commercial bank branches, 111 are in rural areas. The distribution of branches is not proportional to the provincial populations with more coverage in the south of the country. A few banks are offering special financial services for agriculture, including lines of credit. Innovations, such as vehicle based branchless banking, have been successful in reaching rural populations.

- Cellphone based financial services or mobile money is being developed and launched by multiple private-sector companies. It presents the potential for vastly expanding the coverage of formal financial services throughout the country.

- Micro banks are active in rural areas, but their services are limited primarily to credit.

- Credit cooperatives are active in rural and agricultural markets, though their outreach and information about their activities is limited.

- Microcredit operators offer strictly credit services, almost half have some form of agriculture specific product. They depend on donors and external funds and need better systems for analysing clients' credit histories and managing internal information.

- Government funds supply credit in each of the country's rural districts, yet low management capacity, confusion over their services, low repayment rates and weak communication have limited their effectiveness as providers of financial services.

- ASCAs have been successful in organizing informal credit and savings groups, mostly in the north and central regions of the country, bringing financial services to a significant number of rural dwellers. The model is however reliant on support from outside actors and is limited by its short savings and credit cycles, lack of professional management capacity and the informality of its organization.

- RFA's have expanded in Mozambique in the last 15 years bringing financial services to rural areas. Like ASCAs they suffer from a lack of management capacity and dependence on external assistance.

- Informal agents are less common in rural areas than in urban areas. They are characterized by their informal nature, short-term focus and high borrowing costs.

- Outgrower schemes are an important form of credit for smallholder farmers in Mozambique. Activities are concentrated in, but not limited to, tobacco and cotton.

- Commercial advances/contract farming are a common form of credit for farmers throughout the country and in a plethora of value chains. Credit is offered to both small trades as well as small producers. The challenges related to the practice include weak contract enforcement mechanisms, risks associated with fixing prices before harvest, the delay of funds for initial payments and side selling by producers.

- Cross cutting constraints for nearly all actors in the rural financial sector include poor infrastructure, high operating costs and difficulties in the hiring and retention of a skilled workforce.

- Three institutions are involved as wholesale lenders with a particular focus on agricultural and/or rural finance, including FARE, GAPI and Banco Terra.
- Coordinating bodies exist for the commercial banks, microfinance operators and ASCAs. There has been progress in each case in terms of promoting the coordination of actors within their sub-sectors, however management capacity and member participation is still limited in each case.
- Financial sector infrastructure includes a developed national payment system and electronic network. A credit bureau exists for commercial banks, but one for microfinance operators is not yet in place. Regulation for a deposit guarantee fund is being developed to safeguard the system from potential international economic and financial crisis.

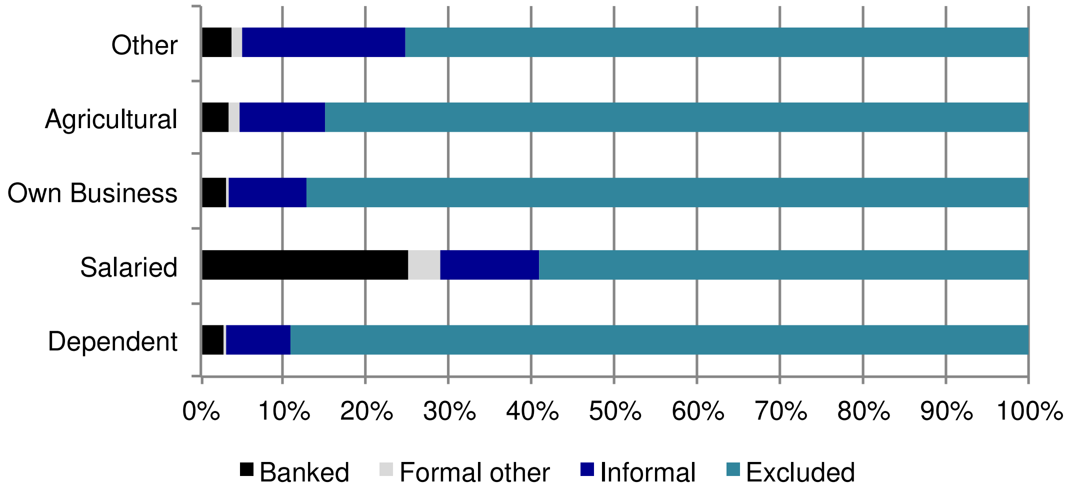
6. ACCESS TO AND INCLUSION IN RURAL FINANCIAL SERVICES

Data from the 2009 Finscope survey and 2009-2010 Agricultural Census are used to analyze access to and uptake or inclusion in rural financial services.

6.1 Access to Rural Financial Services

Most rural dwellers (86%) reported being excluded from rural financial services. As Figure 6.1 shows, 89% of the dependent, 87% of the own business and 85% of the agricultural groups were excluded. The level of exclusion in salaried group was significantly lower (59%), with 25% being banked and another 12% accessing informal services.

Figure 6.1: Rural financial access strand by primary income source



Source: FinScope 2009.

Few rural people indicated being able to access a formal financial institution quickly, with just 13.6% with 30 minutes' travel time to one. Over 34% of people were more than 3 hours from the closest formal financial institution, with 2% living in areas that required more than a day for them to reach one. See Table 6.1 for additional figures.

Table 6.1: Time required to access financial institutions in rural areas

Time	
30 min or less	13.6%
31 - 60 min	20.8%
1 - 2 hours	19.3%
2 - 3 hours	11.9%
More than 3 hours	34.3%

Source: FinScope 2009.

A significant number of the rural dwellers that reported being excluded from financial services were voluntarily or self-excluded. The data in Table 6.1 show that 34.4% of the rural population lives within 1 hour of a financial institution, yet only 14% of this population reports having access to any type of financial services. Therefore, more than 20% of rural dwellers actually have access to financial services, but do not recognize it or choose to utilize the services. This may indicate that limited financial literacy hinders financial system inclusion for rural dwellers, even when they have access to services, and/or the presence of other demand-inhibiting factors such as 'not having enough money to want to use these services'. From a policy perspective, it is important to identify these factors in order to address self-exclusion effectively.

The 2009-2010 INE Agricultural Census asked farmers about their access to agricultural credit. Only 2.3% of small farms, or about 86,000 of the 3.8 million small farms, had access to credit. The numbers were higher for medium and large farms, with 7.0% and 15.2% respectively reporting access, but still representing only a small minority. This likely encompasses not only low access to financial services in general, but also a lack of appropriate credit products for agriculture. Table below show the details

Table 6.2: Enterprises with access to credit (%)

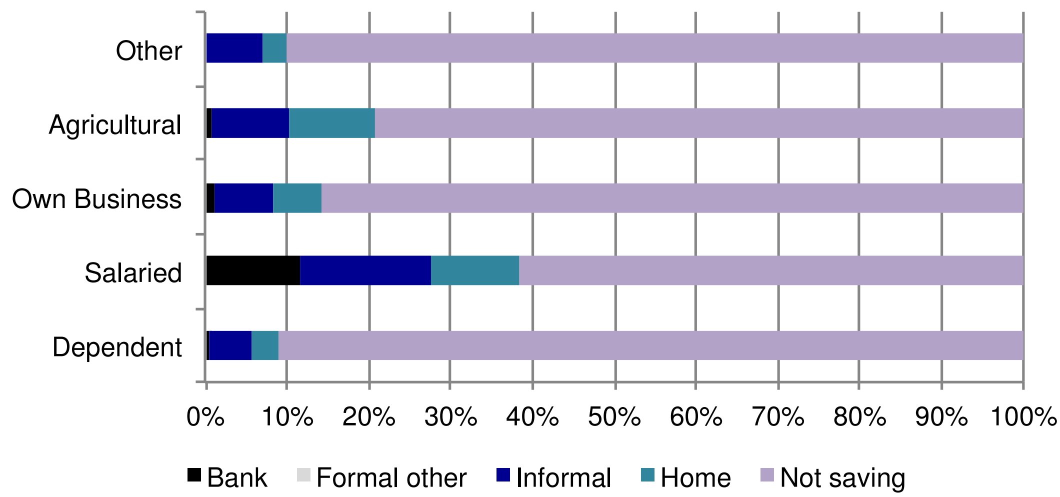
Province	Small		Medium		Big		Total	
Total (nº)	**86,046**	**2%**	**1,790**	**7%**	**134**	**15%**	**87,970**	**2%**
Niassa	1,576	1%	63	11%	0	0%	1,639	1%
Cabo Delgado	3,981	1%	36	9%	1	5%	4,018	1%
Nampula	9,751	1%	52	6%	4	11%	9,807	1%
Zambézia	3,457	0%	51	8%	6	13%	3,514	0%
Tete	50,989	14%	798	10%	17	16%	51,804	14%
Manica	1,649	1%	173	6%	10	20%	1,832	1%
Sofala	5,813	2%	106	7%	8	10%	5,927	2%
Inhambane	2,702	1%	142	7%	3	4%	2,847	1%
Gaza	4,966	2%	290	5%	39	21%	5,295	2%
Maputo	682	0%	59	2%	39	15%	780	1%
Cidade de Maputo	480	1%	20	3%	7	24%	507	1%

Source: INE Agricultural Census, 2010

6.2 Inclusion in Rural Financial Services

Rural inclusion in financial services for the purpose of saving is very low. While the majority of every income group reported that they were not saving, most of those that were, were doing so in their homes or through informal services. The salaried group was the only one to report significant use of formal services, even then amounting to just 11.5% of the group. Savings strands for each income group are presented in Figure 6.2.

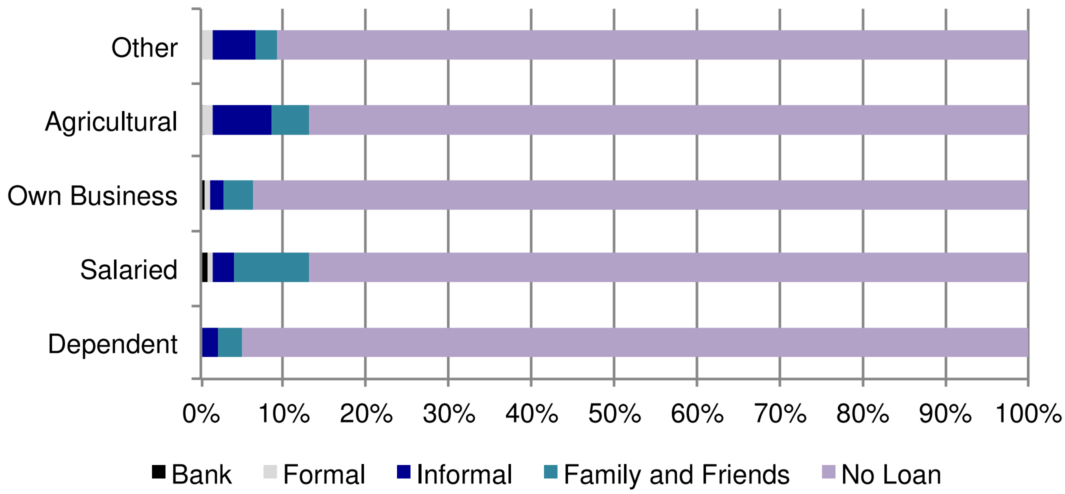
Figure 6.2: Rural savings strand by primary income source



Source: FinScope 2009.

The story is much the same when it comes to inclusion in financial services related to credit. Each of the rural credit strands in Figure 6.3 demonstrates that most rural dwellers reported no loans. 9% of the salaried group relied on friends and family for loans, compared with between 3 – 5% for the other groups. The agricultural group signaled the highest level of credit from informal sources at 7%. Most striking, less than 1% of any group had credit from a formal source. Additional information is available in Figure 6.3.

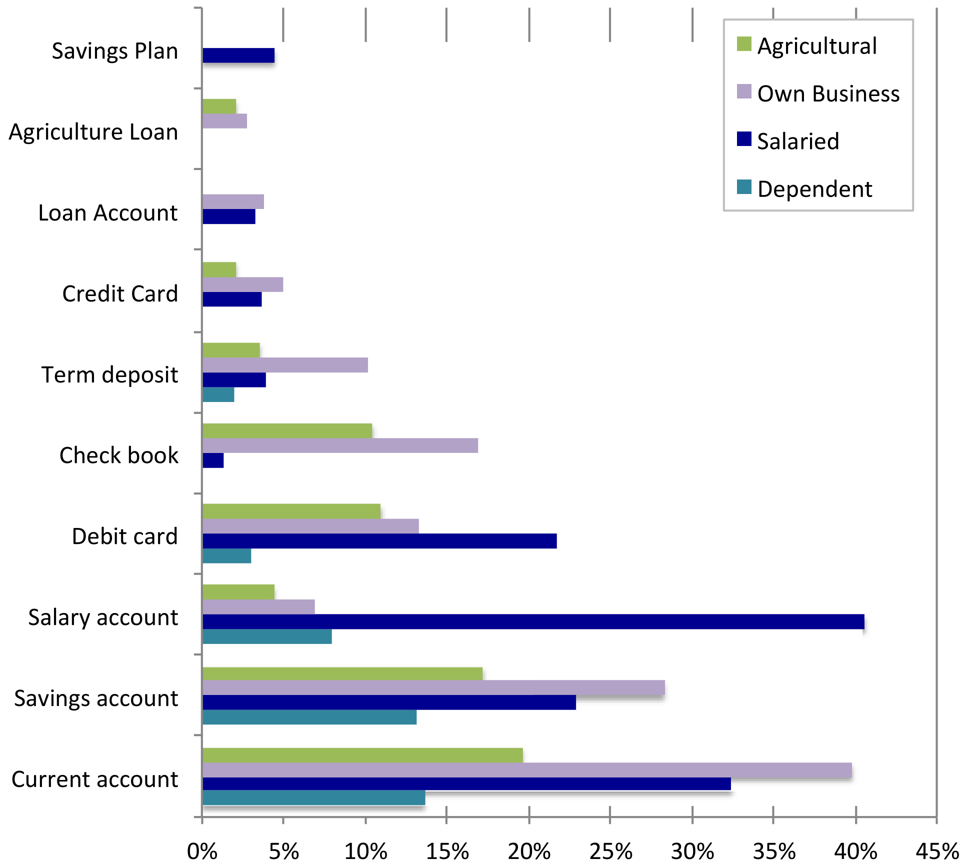
Figure 6.3: Rural creditstrand by primary income source



Source: FinScope 2009.

Although the previous data show very limited use of formal rural financial services for savings and loans, it is still interesting to identify which banking services were used by each income group. Figure 6.4 graphs the use of these services. The most used services were salary accounts for the banked salaried group and current accounts for the banked own business group, each at about a 40% level of utilization. More of the banked salaried group used debit cards than check books, while the opposite was true of the banked own business group. It is notable that only 2.1% of the banked agricultural group and 2.8% of the banked own business group had an agricultural loan.

Figure 6.4: Use of banking services in rural areas by primary income service[25]

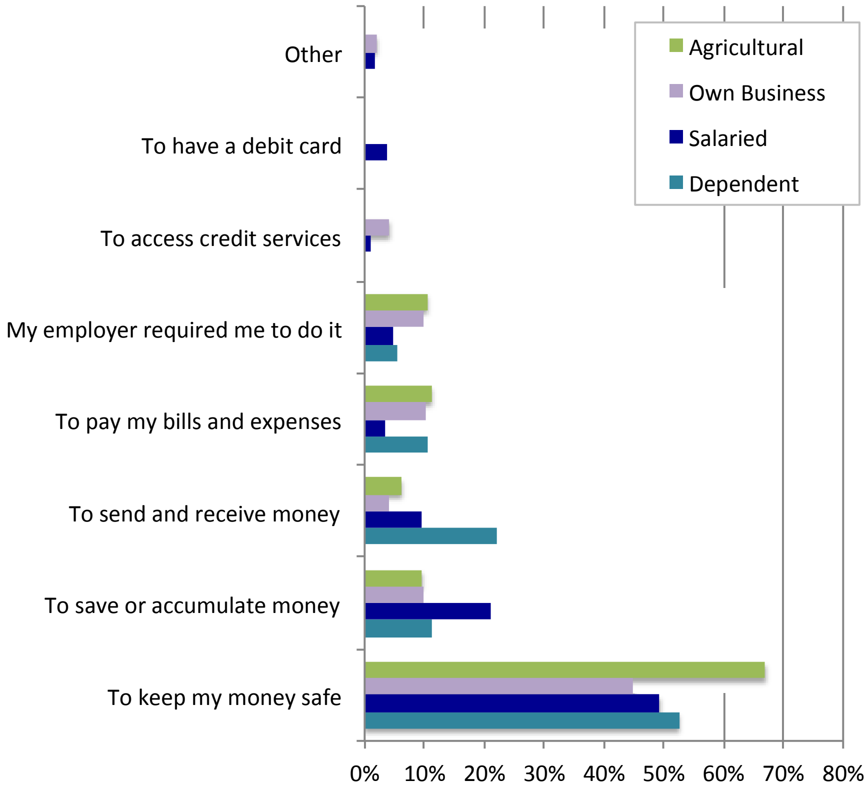


Source: FinScope 2009.

Figure 6.5presents the reasons respondents gave for having a bank account. The primary reason for all income groups was to keep money safe. Other reasons included to save money, to transfer money, to pay bills and because it was required by an employer. Just 4% of the own business group members with bank accounts had them to access credit services (1% or less of the other groups reported the same).

[25] The following responses were reported by less than 3% of all groups: loan of less than 1 year; overdraft facility; standing order (payment of services); direct order; loan of more than 1 year; consumer credit; business loan; housing loan; immovable leasing; car or movable leasing; and bank check account.

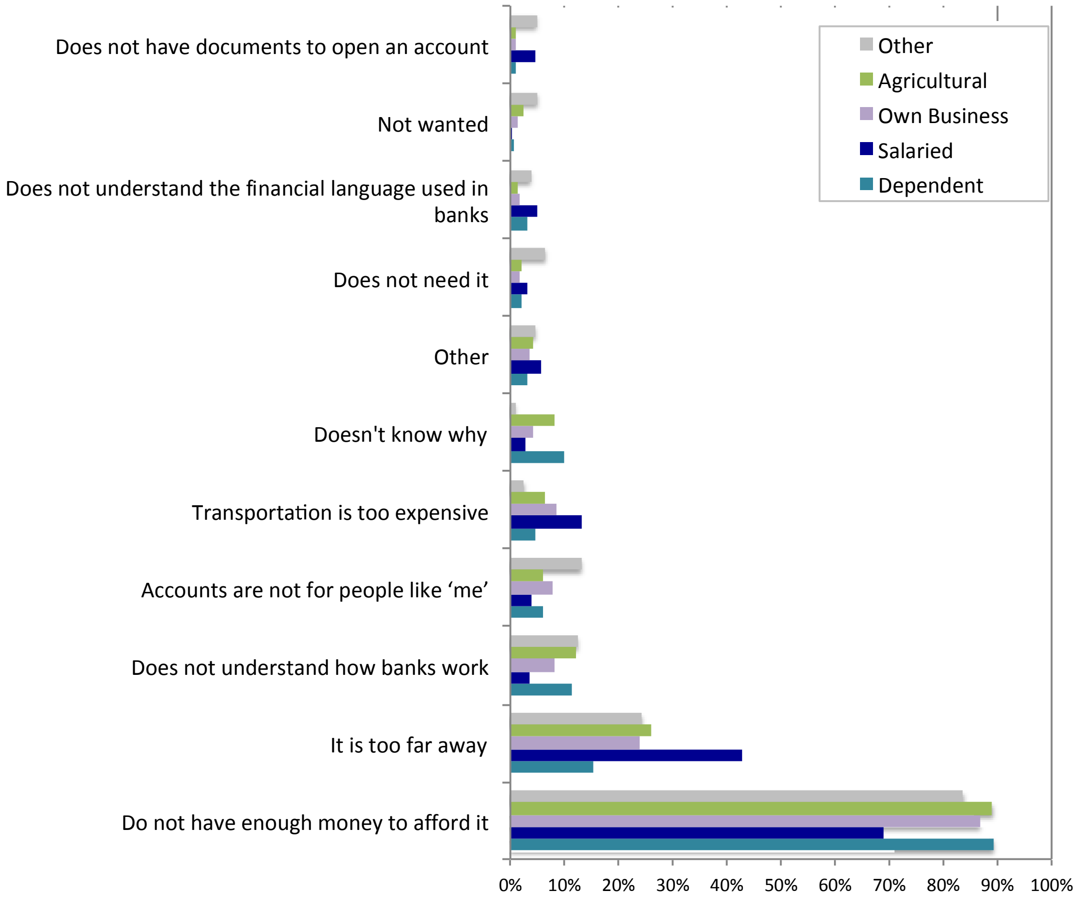
Figure 6.5: Reasons for having a bank account in rural areas by primary income source



Source: FinScope 2009.

In considering inclusion of the rural population in the formal financial services, the following data shed significant light on the situation. Between 84% and 89% of the non-banked agricultural, own business and dependent groups reported not having enough money to afford the services (69% of the salaried group reported the same). Over 24% and 26% of unbanked own business and agricultural group members indicated the services were located too far away (43% in the case of the unbanked salaried group).

Figure 6.6: Reasons for not having a bank account in rural areas by primary income source[26]



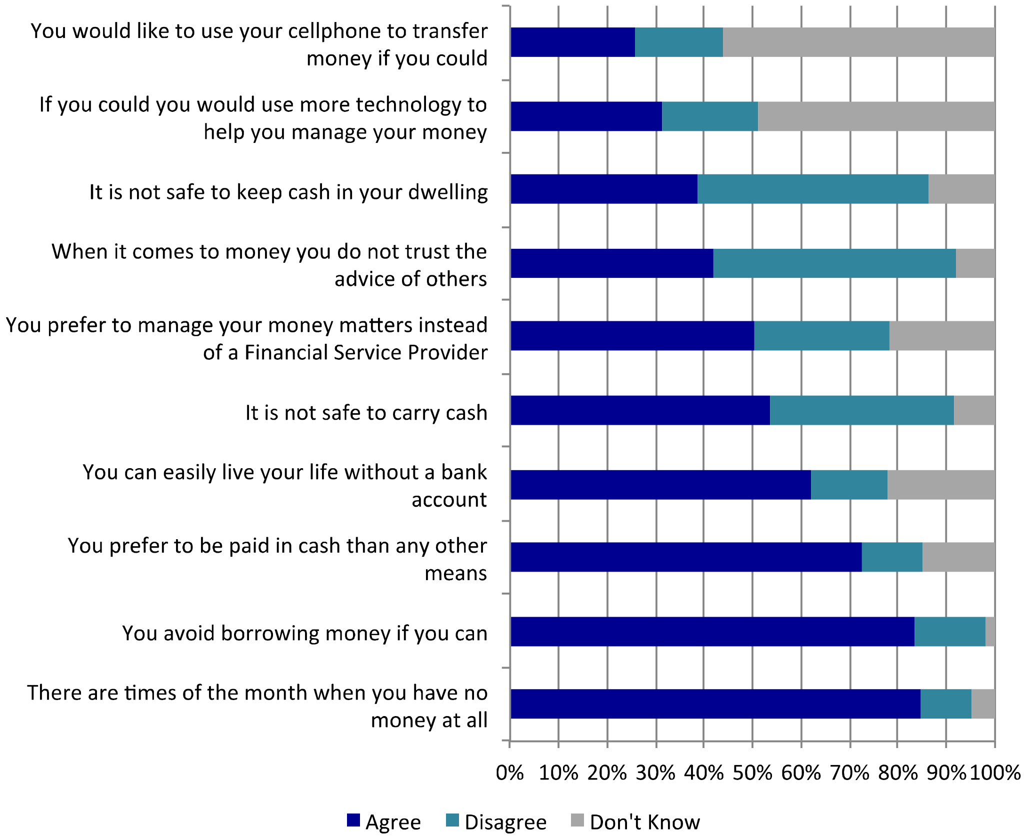
Source: FinScope 2009.

Figure 6.7offers the results from a host of questions about rural attitudes on banking related issues. Nearly 85% of respondents signaled that there were times of the month when they had no money at all, consistent with data given elsewhere in the survey pointing to poverty as the reason for not using financial services. However, the data go beyond suggesting that only low income levels explain very small levels of inclusion in rural financial services, but rather indicate that certain attitudes may also contribute to this exclusion. For example, 83% said they avoid borrowing money if they can, 72% preferred to be paid in cash and 62% reported they could easily live without a bank account. 50% of rural people reported they would rather manage their own money matters and over 40% didn't trust money related advice from others.

Over 53% agreed that is not safe to carry cash, perhaps suggesting people would be interested in alternative forms of carrying money. Looking at the data, on one hand over 30% said that they would use more technology to manage their money and 25% would use a cell phone to transfer money. On the other hand, over 49% and 56% "didn't know" when asked about these options, pointing to weak financial literacy and limited technological knowledge as a reason for potential exclusion from new services that would limit the need to carry cash.

Figure 6.7: Attitudes on bank related issues in rural areas

[26]The following responses were reported by less than 5% of all groups: I do not understand benefits from having an account with them; cannot maintain the minimum balance; does not know how to apply for such a facility; people may be jealous or think person has money; need permission of someone else to open it; their hours are not convenient; the branch where I had account has closed; I do not trust them; their service charges are too high; they do not provide the products or services needed; does not want to be identified for tax purposes; fears embarrassment or refusal; and can get services needed in the community.



Source: FinScope 2009.

Rural dwellers reported very little use (3.1%) of *Xitique,* the informal rotating savings and credit system more widely practiced in urban areas throughout Mozambique (see section 5.2.8). Around 0.5% of rural Finscope participants indicated that they participated in an informal savings and/or credit groups such as an ASCAs. Almost 1% was a member of a funeral association.

According to the INE 2009-2010 Agricultural Census, out of 3.8 million farms in Mozambique, only 2.4% (around 91,200) accessed credit. Most of the farmers that accessed credit did so through input suppliers, especially in Tete (probably because of MLT), where 32,600 farms are benefiting from this scheme. Table 6.3 shows the sources of credit accessed by farms of all sizes. Worth noting, commercial banks made up only 3.7% of the total reported sources, less than from government (15.9%), credit cooperatives (8.4%) and friends and family (5.2%).

Table 6.3: Sources of credit for farms of all sizes accessing credit

Source of Credit	Number of Farms	% of Total Farms Accessing Credit
Input Suppliers	36,480	41.5%
Other Sources	17,731	20.2%
Government	14,024	15.9%
Credit Cooperatives	7,397	8.4%
Friends and Family	4,538	5.2%
Commercial Banks	3,277	3.7%
Self Help Groups	2,782	3.2%
Agricultural Development Banks	1,745	2.0%

Source: INE 2009-2010 Agricultural Census.

In terms of remittances, 19% of the salaried group reported sending money to someone living in a different place within Mozambique. The figure was 4% for the dependent group, 4% for the own business group and 5% for the agricultural group. The salaried group was also most likely to receive money from someone within Mozambique: 15% reported this. As shown in Table 6.4, fewer remittances involved sending or receiving money from someone outside of the country.

Table 6.4: Remittances in rural areas by primary income source

	Dependent	**Salaried**	**Own Business**	**Agricultural**	**Other**
Sent money to someone living in a different place within Mozambique	4%	19%	4%	5%	12%
Sent money to someone living in another country	0%	1%	0%	1%	3%
Received money from someone living in a different place within Mozambique	6%	15%	4%	3%	6%
Received money from someone living in a different country	3%	2%	1%	1%	4%

Source: FinScope 2009.

When rural people did send remittances, it was most likely done through a relative or friend, the one exception being the salaried group that was more likely to transfer money through a bank. Paying a fee to have the money transferred via a taxi, bus or other vehicle was also reported by 6% of the agricultural group and 9 – 15% of the other groups. Complete statistics on remittance sending channels in rural areas are presented in Table 6.5.

Table 6.5: Remittance sending channels in rural areas by primary income source

Remittances by receiving channel	Dependent	Salaried	Own Business	Agricultural	Other
Through a relative or friend	65%	31%	60%	58%	69%
Through a Bank	14%	51%	15%	19%	11%
Via taxi, bus, other vehicle for a fee	15%	9%	9%	6%	9%
At the Post Office	0%	3%	6%	5%	0%
Other	2%	4%	1%	4%	0%
Via Kawena	3%	0%	0%	2%	0%
Through a TEBA office	1%	0%	1%	0%	0%
Moneygram or Western Union	0%	0%	0%	0%	0%

Source: FinScope 2009.

6.3 Summary

The following summarizes access to and inclusion in rural financial services in Mozambique, utilizing the Finscope data previously discussed.

- The majority of all rural dwellers are excluded from financial services. While around a quarter of the salaried group is banked, less than 5% of other groups are. Informal services are used more by these groups.
- Around a third of rural people live within 1 hour of a financial institution. However, another third is 1 – 3 hours from such an institution and the remaining third need more than 3 hours to reach one.
- Even though 34% of rural dwellers can access financial services within 1 hour, at least 20% of them are voluntarily or self-excluded from these services, perhaps due to limited financial literacy. This underscores the importance of focusing on increasing the demand for financial services, not just the supply, in order to increase the level of financial inclusion of the rural population.
- Few farms, be they large or small, have access to agricultural credit. Input suppliers are the most frequent sources for farms that do access credit.
- Most rural people are not saving, but those that are use informal services or save in their home more frequently than using a bank. Apart from those primarily with salaried income, use of a bank for saving is almost non-existent.
- Formal financial services are used even less for credit than for saving. Small proportions of all income groups use informal services and friends and family, while very few use banks for loans.
- The small section of the rural population that does use banking services mostly uses current and savings accounts (most prevalent among those with primary income from their own business). Salaried workers report using salaried accounts.
- The most common reason for having a bank account is to keep money safe. The vast majority report not having a bank account because they do not have enough money to afford it.
- Rural dwellers attitudes toward bank related issues can explain their exclusion: they prefer to avoid borrowing if they can, they prefer cash and believe they can live easily without a bank account. The population is split in terms of trusting others with their money and few properly understand or are open to new financial services via cell phone or other technologies. This reinforces the need for clearer and more appropriate marketing from financial institutions and for massive financial literacy campaigns. Given that many people who have cellular phones use them only to make and receive calls, financial literacy should also include the use of cellphones for financial purposes, as money transmission can be one of the most effective ways to expand financial services in rural areas.
- Those with primary income from salaries are the most likely to send and receive remittances. Overall, remittances are still done mainly through relatives or friends, with the exception being the salaried group, of which around half uses a bank for this purpose.

7. DEVELOPMENT PARTNERACTIVITIES

There are several nation-wide programs supported by bilateral and multilateral donors as well as development funds that aim to increase the supply of agricultural and rural financial services, both at the national-level and in specific geographic areas. On the demand side, there is a host of programs dedicated to increasing income for rural populations (primarily through agriculture)and therefore potentially the demand for agricultural and rural financial services. Many programs address both supply and demand. A selection of notable programs is briefly summarized below, broadly categorized into finance-focused and agriculture-focused programs.

7.1 Finance-Focused Programs

Launched in 2005, the $36.3 million **Rural Finance Support Programme** is funded with the support of International Fund for Agricultural Development (IFAD), AfDB and the GRM and implemented by FARE. The programme's components include institutional, policy and legislative support, an innovation and outreach facility, support for community-based financial institutions and strengthening of FARE to promote rural finance. The passing of the National Rural Finance Strategy is one of its principal achievements, along with integrating around 80000 new users into the formal financial system (the goal for 2013 is to increase that figure to 125,000).

Beginning in 2006, the **Financial Services Technical Assistance Project (FSTAP)** has provided technical assistance to the financial system as a whole. The WB and the GRM funded most components of the program, with the Micro and Rural Finance component funded by GIZ and KfW. GIZ supported activities to strengthen rural finance through technical assistance to related institutions. Through the Access to Finance Challenge Fund, KfW's sub-component promoted the expansion of microfinance services to rural areas. A one-year, 1 million Euro second phase of the fund was approved to start in 2012.

The first phase (2007-2011) of the program **Building Inclusive Finance in Mozambique (BIFSMO)** promoted access to financial services for the poor, especially the rural poor. The program was funded by UNDP and UNCDF and implemented by the Rural National Directorate for Promotion of Rural Development (DNPDR). It worked to build the capacity of trainers and support innovation of services. The $6 million second phase planned for 2012 to 2015 aims to support the development of rural and microfinance strategies, train AMOMIF members and other financial service providers in inclusive finance, and back DNPDR efforts to disseminate, monitor and implement inclusive rural finance strategies throughout the country.

Multiple donors work with implementing partners to promote and support the development of ASCAs. The Swiss Agency for Development and Cooperation (SDC) has worked with IRAM to do precisely this through its work with the ***Rede de Caixas Rurais de Nampula*** **(RCRN)**. The 4-year, $3.6 million project is scheduled to be completed in June 2012. The Netherlands Development Organization (SNV) is working with the **Ophavela**, a national organization, in Nampula to establish and strengthen ASCAs and Savings and Credit Cooperatives (SACCOs). As part of the 2010-2016 **Enhancing Food Security and Increasing Incomes in Northern Mozambique** project implemented by Aga Khan, the Canadian International Development Agency (CIDA) is promoting community based savings groups in Cabo Delgado.

Some donors are also working with banks to encourage the expansion of financial services into rural areas. This is mostly done by sharing the costs of opening new branches, training of staff or guarantee facilities. The EU worked with Banco Tchuma to open a new branch in Tete. In districts of Maputo and Gaza the EU worked with *Caixas Comunitárias de Operadores de Microfinanças* (CCOM) to expand microfinance services. These interventions formed part of the **Programme to Support the Expansion of Microfinance in Rural Areas**, a project slated to finish in June 2012. Currently, the EU delegation has no plans for additional programmes related to rural finance.

The United States Agency for International Development (USAID) and the Swedish Agency for International Development initiated a $14 million **guarantee fund** with Banco Terra in 2011 to guarantee loans to agribusinesses and tourism medium sized businesses. The French Development Agency's ARIZ fund guarantees SME loans in a variety of sectors including agriculture and agro-business, both at the portfolio and individual level.

USAID is to implement new support for the development of cell phone banking services or ***mobile money*** throughout the country, with special attention to reaching rural areas.

In addition to extending the **Access to Finance Challenge Fund**, KfW will launch the Sustainable Economic Development project in 2012. The three-year, 28.5 million Euro project, though not exclusively dedicated to rural finance, will include credit lines for MSMEs through partner banks, a deposit guarantee fund and support for development of cell phone banking.

The UNDP 2012-2015 **Local Economic Development for Increased Incomes and Livelihoods** program is being implemented with the DNPDR with funds from the UNCDF. Generally, it aims to improve the livelihoods of those living in poverty through inclusive economic growth. Part of the program includes support for the development and integration of an inclusive financial approach for coordinating bodies and service providers.

Danida has funds allocated for rural financial development and it is in the process of negotiating a partnership with GAPI. Its activities related to promoting an enabling environment will be carried out through the Ministry of Agriculture.

7.2 Agriculture Focused Programs

The **Sustainable Irrigation Development Project (PROIRRI)** is a WB six-year $90 million project funded by its International Development Association ($70m), along with the Japanese Cooperation ($14.25m) and the GRM ($5.75m). The project's objective is to increase agricultural production and farm productivity through irrigation schemes in the Provinces of Sofala, Manica and Zambézia. The project focuses on rice, sugar, bananas, and a variety of fruits and vegetables. PROIRRI's government counterpart is the Ministry of Agriculture.

USAID launched the 5-year **Agrifuturo** project in 2009 in the Nacala and Beira corridors. The project broadly aims to improve agribusiness competitiveness through improving the enabling environment, expanding and strengthening private sector business services, building linkages to financial services for agribusinesses and expanding and improving public/private partnerships. Agrifuturo has worked to expand access to credit in rural areas, primarily through agribusinesses in specific value chains. It has relationships with Banco Terra and Standard Bank, though there is interest in identifying alternatives with lower interest rates.

The WFP's Mozambique's **Purchase for Progress (P4P**) initiative is helping farmer organizations and small and medium traders to develop their capacity to compete with larger buyers for smallholders' crops. Increasing competition enhances the number of market outlets for smallholder farmers, allowing them to negotiate better prices and increase their income. P4P in Mozambique is improving smallholders' productivity by helping them to access credit and by investing in the local marketing infrastructure and training for the farmers so that they can sell a better product. In areas with strong umbrella farmer organizations, the programme is buying from these organizations in order to build their capacity to be effective competitors in localcommodity markets. In areas with no strong farmer organizations, the P4P programme will buy directly from small and medium traders inorder to increase competition for smallholder farmers' grains. P4P will also contribute to the strengthening ofthe existing national market information system. Together with government authorities and partner UN organisations such as FAO and IFAD, standards for maize and beans that are consistent with regional standards have been established. Other activities include: direct and forward contracting; capacity building and small scale processing initiatives

P4P's technical and administrative costs in Mozambique are sponsored by the Bill and Melinda Gates Foundation. All food purchases are financed by donations to WFP's regular operations. The targets defined for 5 years include benefiting 25,000 farmers, by working with 14 farmers organizations and 8 small & medium traders. It is expected that the programmewill buy 22,000 metric tons of maize, pulses and corn soya blend.

The **Beira Agricultural Growth Corridor (BAGC)**, launched in 2010, is a partnership between the GRM, the private sector, local farmers and the international community responsible for implementing AGRA's Bread Basket Strategy highlighted in the macro level analysis of this report. The initiative includes the BAGC Partnership, a Mozambican NGO, and the Catalytic Fund, a Mozambican company managed by AgDevCo. The Catalytic Fund was designed to invest in agribusiness start-ups, such as commercial farms with outgrower hubs and clusters of agribusiness input and processing businesses. The fund's goal is to reach at least 50,000 farmers within three years.

Italian Cooperation started the **Support for Rural Development Programme** in 2011. The three-year program makes $17 million in grants available to support small and medium agricultural families, farmer and community organizations, processors, traders, and government administrations tied to 6 value-chains: forestry, fruit and vegetables, poultry, oilseeds, stock food and lactose products. The project is active in eight districts of Manica and Sofala.

The **International Fertilizer Development Centre (IFDC)** works in the Beira Corridor to create an agricultural input trader network, increase distribution points, reduce input costs and promote the use of agricultural inputs. Its activities include working with the *Banco de Oportunidade de Moçambique* to establish guarantee funds. The program is scheduled to end by mid-2012.

IFAD initiated the seven-year **Artisanal Fisheries Promotion Project** in 2011 with the Belgium Fund for Food Security, naming the National Institute for the Development of Small Scale Fisheries (IDPPE) as the lead project agency. The project specifically addresses the development of financial services by establishing new rotating savings and credit groups, capacity building for service providers, business development services and attracting financial services to fishing areas.

The GRM signed a five-year $506 million compact with the United States **Millennium Challenge Corporation** in June of 2007. The overall objective is to raise the productive capacity in Northern Mozambique. The compact includes four projects: farmer income support, land tenure services, rehabilitation/construction of roads, and water and sanitation. The compact is particularly interesting because it has the potential to increase the demand for financial services through increasing income and title holding in rural areas, along with possibly enhancing access to financial services through improved transportation infrastructure.

The WB and the GRM are working on plans for a $100 million **Integrated Growth Poles Project**. The targeted growth poles will be Tete and Nampula and the aim to enhance performance of smallholder farms and businesses in those areas. In fact, 25% of the budget will focus on supporting agro-industry. Components of the program will include activities to improve the enabling environment and infrastructure along with the creation of an innovation and demonstration grant facility.

8. ENABLING AND DISABLINGFACTORS

This chapter presents enabling and disabling factors related to agricultural and rural finance. Macro level factors are presented first with meso and micro level factors following. The last section is dedicated to client level demand related factors. It is important to note that many factors are broad and may have both enabling and disabling aspects. For this reason, factors were classified as 'enabling' or 'disabling', depending on which aspect it was felt predominated.

8.1 Macro Level

8.1.1 Enabling Factors

Monetary and Exchange Rate Policy– It should be acknowledged that BoM monetary policy in recent years has provided stability to the economy and enabled GDP growth. Future policy is expected to aim to keep inflation in check, with a relatively strong Metical to maintain favorable prices for key imports of food, fuel and industrial commodities. While a stronger Metical is not conducive to the growth of agricultural exports and makes it more difficult for local farmers to compete with agricultural imports, it does reduce the cost of imported agricultural inputs, and a stable and consistent economic climate should enable investment in and expansion of financial sector services.

Financial Service Legislation and Regulation – As previously discussed, legislation related to the provision of financial services is generally favorable for the growth of financial inclusion. This includes legislation that permits a variety of types of financial service provider that are appropriate for rural areas. Furthermore, the current framework is conducive to the development and operation of cell phone based financial services as well as other branchless financial services which may pay an important role in rural areas.

Political Commitment to Rural Development–There is strong political commitment to rural and agricultural development in Mozambique, even if the capacity to implement it is limited.The gamut of related official government strategies discussed in this report is evidence of this commitment. Furthermore, several initiatives, programmes and activities demonstrate the will to address rural development needs. Examples are the District Development Fund, expansion of FARE services, infrastructure investment, the creation of development corridors and incentives for financial institutions to enter rural markets.

Market Liberalization – In general, Mozambican markets are fairly liberalized and offer good opportunities for international commerce and investment. This can have both advantages and disadvantages for the agricultural sector as, on the one hand, it encourages the foreign direct investment that it needs to grow, but, on the other, it exposes local producers to increased foreign competition. Some protectionist policies, such as import tariffs on sugar and chicken, are in fact enabling for agricultural development in the country and should thus increase the demand for financial services by farmers. However, they may also have negative effects on consumer prices, inflation and the competitiveness of Mozambican firms.

Rural Financial Support Institutions–FARE exists as the government body dedicated specifically to promoting the development of rural financial services. It has the support of international development partners in building its capacity, improving the services it offers and expanding its reach.

Communications Infrastructure– The cell phone networks comprise the most developed communication infrastructure in Mozambique. Although there are still many geographic areas without coverage, the infrastructure concerned has expanded to include all of the country's 128 district capitals. This will enable the further development of rural financial services via cell phones in the coming years.

8.1.2 Disabling Factors

Fiscal Policy– In2011, Mozambique received 42.3% of its budget from foreign donors and creditors (GRM, 2012). Although many of these donors do push for attention to be paid to rural and agricultural development, the situation is exposed to risk from changes in the policies of the donor countries and is ultimately not sustainable. In coming years, the proportion of revenue from donors will decrease as tax exemptions for some large-scale businesses expire and revenue begins to flow from the taxation of new private sector projects in the extraction and energy sectors. Details of these future fiscal arrangements are not clear, but a fiscal system that relies on income primarily from natural resources could shift the focus of public sector spending away from agricultural and rural development and from the creation of related financial services.

Property Rights – All land is state-owned in Mozambique. The *Direito e Aproveitamento da Terra* (DUAT) is the only form of land tenure (exclusive, inheritable and transmittable 99-year leases). While effortsare being made to assist rural dwellers in obtaining DUATs to protect their land, the DUAT does not serve as a form of collateral for formal sector loans.

Contract Enforcement – Contract enforcement is weak in Mozambique, in large part because of an inefficient and cumbersome legal system with limited capacity. Mozambique ranks 131st out of 183 countries in enforcing contracts in the IMF's 2012 Doing Business Report. This situation hinders the expansion of financial services in the country and raises the cost of doing business for financial service providers and their customers.

Public Sector Capacity– While the capacity exists in the public sector for developing strategies to improve financial inclusion in rural areas and to meet other development needs, the ability to implement and manage action plans in limited. Furthermore, monitoring and evaluation capacity is still low. Challenges related to recruiting and retaining talent contribute further to limiting the capacity of the public sector, a situation that will not become easier in years to come with the ever increasing demands of accelerating private sector growth on the country's limited professional workforce.

Irrigation Infrastructure – As previously mentioned, only a small percentage of agriculture in Mozambique is under irrigation. This increases risk for dry land farmers and limits their demand for and ability to obtain production credit.

Climate Change– Rural dwellers worldwide have been affected by global climate change and Mozambique is no exception. Changes in and the reduced predictability of weather patterns have increased risks for those whose livelihoods are linked to agriculture, especially those operating without irrigation.

Road Infrastructure – Although there are currently projects throughout Mozambique to improve the very limited road infrastructure, the size of the country and the distribution of the rural population in particular, make the task of connecting people to markets daunting. FinScope data clearly demonstrate that most rural people don't have consistent and affordable road transport for receiving goods, shipping products to market or accessing financial and other services.

Electricity Infrastructure – The supply of electricity is very limited in rural areas throughout Mozambique. Again, this is related to the size and low population density of the country, as well as the limited capacity to pay for electricity in poor rural communities. At the same time, electrical infrastructure is necessary for expanding several forms of rural financial services, such as physical bank and fuel/retail store-based branches, cell phone services and ATMs.

Financial Sector Infrastructure – As detailed in the supply chapter, financial sector infrastructure by way of physical branches is very limited in rural areas. The same goes for POs and ATMs. An electronic payment network is in place, but it is limited by the lack of such infrastructure in many rural areas.

8.2 Meso and Micro Level

8.2.1 Enabling Factors

Development Partner Programs – Although several programs supported by development partners have been concluded in recent years, many more are ongoing or set to begin in the coming years, details of which were discussed previously. The attention that donors are continuing to place on expanding the provision of agricultural and rural financial services, particularly through innovations such as cell phone banking, will be important for enabling the development of the sector in coming years.

Mobile Money Development–Interest and commitment from the government, donors and the private sector in developing mobile money or cell phone based financial services should be positive for meeting the needs of the agricultural and rural population. Mcel has already launched a cell phone service and is set to be followed by Vodacom. Development of these services in urban areas should make it more feasible for the companies to target rural populations as well.

8.2.2 Disabling Factors

Population Density – The relatively small population of the country compared to its size is inhibiting the development of agricultural and rural financial services. The distance between communities and markets increases the costs of providing goods and services, including financial services. While innovations such as cell phone banking can make providing such service more affordable, investments in the infrastructure required can still be prohibitively expensive due to the small populations of many remote communities. This factor is disabling not only at the meso and micro levels, but also at the client and macro levels, because of the high costs that it imposes on any type of coordination or product/service delivery.

Risk Assessment Procedures – A credit bureau only exists for customers of financial institutions that are subject to supervision. Therefore, many of the financial service providers working in rural markets and their clients are not included in this system. A microfinance credit bureau is under study by the Bank of Mozambique, but it has not yet been launched and its capacity to improve risk assessment procedures is unproven.

Product Design – The design of most products does not take into account the seasonality of rural incomes (even for those not directly involved in agriculture). Most financial institutions focus the design of their products on lending for income generating activities, while FinScope has shown that households, both rural and urban, have other financial needs as well – for transmission, savings and insurance products.

Price– Transaction costs as well as interest rates are high. Most credit products in the market that could be used by those in rural areas with little income have effective annual interest rates of 40 - 120%.In addition, many households have to use credit products designed for other type of activities to satisfy their agricultural needs. While other business activities might able to pay the high prices involved, agriculture typically has lower margins and is less able to do so.

Service Delivery– Although there are some appropriate delivery mechanisms being used in Mozambique (such as mobile bank vehicles and new cell phone based services), their coverage is very limited. Much more innovation is needed to introduce more suitable delivery mechanisms and models for rural areas.

Inconsistent Application of Laws and Regulations – This factor is applicable at all levels. National and local-level government officials are not always up to date on the current laws and regulations of the country, including those related to financial services. It is not uncommon for laws and regulations to be incorrectly or 'creatively' applied, thus increasing the costs and risks of doing business.

8.3 Client Level

8.3.1 Enabling Factors

Development Partner Programs – Donor funded programs continue to strive to increase agricultural and rural development. As previously discussed, many of these initiatives involve partnerships with private sector actors, especially efforts to link smallholder farmers to commercial businesses and operations throughout the value chain, including the provision of financial services. Any efforts to increase the incomes of rural people will in turn be enabling for the demand for financial services, since lack of income is the number one reason for rural people to not demand such services.

Success of Informal Group Models – The success in pockets of the country in forming and linking ASCAs has increased financial literacy in those communities and created more financial service users. Spreading stories of this model's success could encourage the development of new groups and increase the demand for financial services.

Availability of Fertile Land for Farming – Less than 17% of all arable land in Mozambique is under cultivation. This offers a substantial opportunity for large and small scale farmers to expand, especially as they implement more advanced production techniques. Greater agricultural production will increase the demand for related financial products.

Access to International Markets – Mozambique's geographical location positions it well to supply offshore markets in Asia, Australasia and the Middle East, while its port, rail and road infrastructure provide access to markets in neighboring landlocked African countries.

8.3.2 Disabling Factors

Poverty– Many people in rural Mozambique struggle to satisfy their basic needs such as fetching water, feeding their families and maintaining their health. They are vulnerable to a wide variety of disasters and shocks. Financial services are not a priority for people living under these conditions.

Lack of Income/Assets–The data analyzed in this report shows that income levels are very low in rural areas. Many people's income does not cover even their basic needs, which constitutes the biggest constraint to financial inclusion. In one study conducted by ICC in which several focus group discussions where held with low income households, many participants confessed that they had withdrawn from informal schemes or had drastically reduced their contribution, because they lacked the money to continue[27].

[27] ICC, Demand for micro-insurance products in Mozambique, 2011. This study served as an input for the FMT's Microinsurance Diagnostic in Mozambique conducted by Cenfri.

Financial Literacy – As the analysis of FinScope data makes clear, financial literacy is low in terms both of general concepts related to financial services, such as saving and credit, as well as of specific concepts relating to different types of services and their benefits. The degree of financial literacy among the rural population will have to increase for any significant additional demand for financial services to emerge, especially formal services. Informal schemes, such as xitique, and ASCAS are playing an important role in educating people to use saving to cope with expected and unexpected financial needs. Such schemes need to be promoted.

Education Levels– An adult population with limited levels of education and educational services with little capacity in rural areas jointly hinder people's ability to increase their income levels and demand for financial services. Low literacy rates make participating in both formal services and informal groups more challenging. The absence of human capacity and equipment to teach technological skills is a disabling factor for the dissemination and use of cellphone banking and other technological innovations.

Concerns about Costs – As mentioned earlier, the costs associated with financial services in rural areas are significant. This not only includes high interest and transactions costs, but also transport expenses and the time required to access formal financial services. The perceived benefits simply do not outweigh the perceived costs for many rural people.

Low levels of productivity– The low levels of productivity associated with limited access to input suppliers, more advanced technology and effective extension services limit both farmers' demand for and the attraction of using financial institutions, as many farms and small enterprises do not produce enough income to save or pay for a loan.

Underdeveloped Agro-processing Industry - The agro-processing industry can be a driver of increased agricultural production and rural income. However the industry is still very underdeveloped in most sub-sectors and areas, even including small and medium processors.

Gender Issues–A variety of cultural attitudes related to gender are disabling for the demand for financial products. These range from the fact that girls receive less education on average than boys to women's role of managing households and having to provide the labour for household crop and small livestock production. Traditional women's responsibilities often require most if not all of their time, leaving little time to access or be included in financial services.

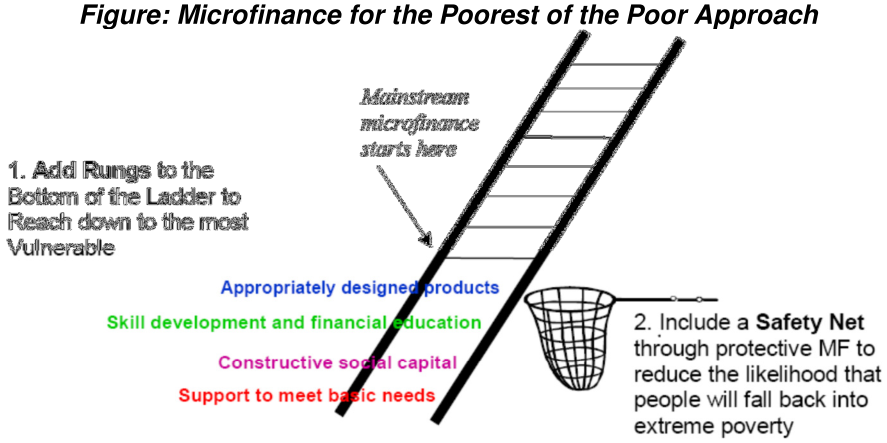
9. RECOMMENDATIONS FOR NATIONAL- OR LOCAL-LEVEL ACTION

The following recommendations for increasing access to and inclusion in agricultural and rural financial services are based on the data and analysis presented in the previous chapters. They are divided into demand-led and supply-led. The recommendations include suggestions for public policy, government intervention, private sector activities and support from donors and NGOs on national and local levels.

9.1 Demand Led

The following figure presents a model for considering first steps in increasing demand for financial services for the "poorest of the poor". It suggests that people's basic needs must first be addressed, followed by ensuring they have the social capital (ability to communicate and form the relationships and networks necessary to do basic business). Only once these issues have been addressed, can emphasis be placed on financial literacy and skills development. This is also the stage for which suppliers of financial services should design appropriate products. The last phase is to support new clients throughout the process to make sure that they don't return to extreme poverty due to an unexpected event or a poor decision.

Figure: Microfinance for the Poorest of the Poor Approach



Source: Frankiewicz e Churchill, 2011.

Focus on Raising Incomes in Rural Areas– Increasing incomes and decreasing poverty must continue to be the priorities for rural areas, both to improve people's lives and to increase the demand for agricultural and rural financial services. Consistent with the model above, most people don't even consider financial services, be they formal or informal, because they don't have sufficient income to even cover their basic needs. Thus, investment and support for reducing poverty must continue from government, donors and the private sector both nationally and locally.

Invest in Education – Investing in improving education in Mozambique's rural areas is key to opening up opportunities for people to improve their livelihoods, be it through agriculture, starting a business or becoming a salaried employee. This should include technological skills whenever possible, so that people have the capacity to take advantage of new sources of information and services offered through technology that will be ever more available in rural areas in the coming years.

Build Financial Literacy through Various Channels – Youth already being educated in the formal system are a great opportunity to build financial literacy within the demographic group that has the greatest capacity to learn and to spread knowledge about financial concepts and services in their households. Agricultural groups and associations have a long history as appropriate channels for building financial literacy both through technical assistance and experiential learning. The creation of savings and credit groups are likewise effective at spreading financial literacy. Communications media such as rural radio stations also offer opportunities for financial education interventions. Last, cell phone companies that are offering financial services can contribute to increasing financial literacy among rural populations as they have to educate potential users about how the services work and the benefits of using them.

Integrate Agricultural Producers into Value Chains – Continued work is needed to link small farmers to input suppliers and markets for their products, while building their production capacity through extension services. For example, current and future projects in the extraction and energy sectors have generated and will continue to generate significant demand for goods and services. The demand from these projects for agricultural products alone is a prime opportunity for integrating rural dwellers into their supply chains. Government and development partners and mining companies themselves should continue to invest in building this capacity and creating market linkages. Special attention should be placed on technical assistance to eliminate bottlenecks that prevent producers from meeting the strict quality and delivery schedules demanded by potential clients. Additionally, new relationships with suppliers and buyers are perfect opportunities to link rural agricultural producers to formal financial services.

Use Distribution of Subsidized Inputs to Link Producers to Financial System– The distribution of subsidized agricultural inputs by rural financial service providers has been successful at increasing financial literacy and integrating the benefiting farmers into the formal financial sector through input and production credit and savings services. This model should be expanded throughout the country.

Make Out-grower Payments via Branchless Banking Systems – Out-grower payments that are not currently made via a formal financial service are an excellent opportunity for integrating more rural farmers into new branchless banking services. Furthermore, it presents a great opportunity for getting the needed equipment, namely cell phones, into more rural dwellers' hands as they could be advanced to growers and paid with part of their production. The shift would also reduce the risks involved with businesses traveling to remote communities to make cash payments.

9.2 Supply Led

Push Development of Branchless Banking in Rural Areas–Work has already begun in this area, both in offering banking though vehicles that travel from community to community and via cell phone technology. The push to make cell phone banking and other branchless baking channels affordable needs to continue to be a coordinated effort of the government, donors and private sector. The government should continue to see that the policy and regulatory framework is conducive to development. The private sector must ensure that the technology and products developed meet the needs of the users. The donors are in a position to be able to support on both cell phone banking expansion into and marketing in both rural and urban areas, thus helping to guarantee the critical number of users needed to make the service profitable for the private sector and thus sustainable.

Continued Support for Informal Groups–Informal groups, such as ASCAs and ROSCAs, have been successful in expanding the supply of financial services in rural areas. Development partners and the GRM should continue to support these groups in building their capacity to offer services to their members and linking them with other groups to access resources and pool expenses when appropriate. This support should recognize the value of these groups originating in an informal manner, but should also assist in integrating them into the formal financial sector, if requested.

Develop Products Designed for Young People– Mozambique is a young country in terms of demographics. Products should be designed to link youth to financial services, initially through saving, as young as possible. Youth on average have more education than their parents and have the potential to become financially literate and to assist in teaching their parents.

Maintain a Stable Macro-economic Environment– The BoM and GRM should work together to ensure that monetary and fiscal policy are responsible, consistent and clearly communicated to investors and private sector actors, including those providing financial services in rural areas. Special care should be taken to avoid shocks in price levels the exchange rate, both key critical to the supply of financial services.

Strengthen Coordinating Bodies – The capacity of coordinating bodies in the financial sector should continue to be strengthened through technical assistance. Successful coordination can reduce costs for financial service providers through mechanisms such as the microcredit bureau that has been in development, gaining access to technical assistance and maintaining a competitive environment through transparency initiatives.

Formal Retail Lending Should be Left to Financial Institutions– Direct retail lending from government or donors is dangerous in that it distorts markets and tends to lead to such undesirables as corruption and low repayment. All of these effects in turn discourage private sector financial firms from entering markets.

Expand and Improve Infrastructure – While all forms of infrastructure improvements are needed across Mozambique, focus should be placed on transport, irrigation and communication infrastructure in rural areas. This needs to be beyond just the main corridors linked to natural resource extraction and energy projects, but also in communities throughout areas with the agricultural potential. This effort requires action from government, donors and the private sector.

Government Incentives for Expansion of Rural Finance - While government is not best suited for directly providing financial services, it can incentivize financial service providers to expand into rural areas through tax breaks for establishing branches and branchless infrastructure.

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10.2 Raw Data

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