Opportunities to Improve Financial Inclusion in Mozambique: Building on Investments and Economic Activities Associated with the Extractives Sector

Prepared for
Financial Sector Deepening Moçambique

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Abbreviations and Acronyms

AfDB  African Development Bank
AFD  Agence Française de Développement, French Development Agency
ANJE  Associação de Jovens Empreendedores, Association of Young Entrepreneurs
ASCA  Accumulated Savings and Credit Associations
ASM  Artisanal and Small-Scale Mining
ASSOTSI  Associação dos Operadores e Trabalhadores do Sector Informal, Association of Informal Sector Operators and Workers
ATM  Automated Teller Machine
BCI  Bank of Commerce and Industry
BIFSMO  Building Inclusive Finance in Mozambique
BIM  Banco International Moçambique, Bank International Mozambique
BPD  Barrels per day
CPI  Centre for the Promotion of Investments
CSR  Corporate Social Responsibility
CTA  Confederação das Associações Económicas de Moçambique, Confederation of Economic Associations of Mozambique
DAI  Development Alternatives Incorporated
DFID  Department for International Development
DNPDR  National Department for the Promotion of Rural Development
ENH  National Oil Company
ENRC  Eurasian Natural Resources Corporation
EPC  Engineering, Procurement and Construction
FARE  Economic Support and Rehabilitation Fund
FFM  Mining Development Fund
FID  Final Investment Decision
FSDMoc  Financial Sector Deepening Moçambique
FSDS  Financial Sector Development Strategy
FSTAP  Financial Sector Technical Assistance Programme
GoM  Government of Mozambique
GDP  Gross Domestic Product
GIZ  Gesellschaft für Internationale Zusammenarbeit
ICC  International Capital Corporation Limitada
ICMM  International Council on Mining and Metals
ICVL  International Coal Ventures Private Limited
IFAD  International Fund for Agricultural Development
IFC  International Finance Corporation
IFS  International Facilities Services
IMF  International Monetary Fund
IPEME  Instituto para a Promoção das Pequenas e Medias Empresas, Institution for the Promotion of Small and Medium Enterprises
JICA  Japanese Development Agency
KfW  Kreditanstalt für Wiederaufbau
KPMG  KPMG Auditores e Consultores SA
KYC  Know Your Customer
LNG  Liquefied Natural Gas
M4P  Markets for the Poor
MFI  Microfinance Institution
MFSDS  Mozambique Financial Sector Development Strategy
MIREME  Ministério dos Recursos Minerais e Energia, Ministry of Mineral Resources and Energy
MSME  Micro, Small and Medium Enterprise (here, generally included in “SME”)
mt  Million tonnes
mtpa  Million tonnes per annum
MZN  Mozambican New Metical
ONGC  Oil and Natural Gas Corporation
PARP  *Plano de Ação para Redução de Pobreza*, Poverty Reduction Action Plan
PPP  Public Private Partnership
RFS  Rural Finance Strategy
RFSP  Rural Finance Support Programme
SIDA  Swedish International Development Cooperation
SME  Small and Medium Enterprise
SMEELP  Small and Medium Enterprise Empowerment and Linkages Program
SOE  State Owned Enterprise
SPEED  Support Program for Economic and Enterprise Development
tcf  Trillion cubic feet
tpa  Tonnes per annum
UEM  *Universidade Eduardo Mondlane*
UNCDF  United Nations Capital Development Fund
UNDP  United Nations Development Program
USGS  United States Geological Survey
Opportunities to Improve Financial Inclusion in Mozambique: Building on Investments and Economic Activities Associated with the Extractives Sector

1. Executive Summary

A resources-led economic boom is underway in Mozambique. Over the past decade, there has been a remarkable growth in the identification and initial exploitation of mineral and hydrocarbon resources. Growth of the sector has not been easy given the resources’ locations and challenges in access and infrastructure provision, not to mention market conditions. While there has been some positive impact from the extractives sector, many of the expected benefits of the sector are yet to be apparent notwithstanding the fact that government has developed a comprehensive legislative framework to maximize the benefits for long-term economic growth and social development, and to regulate the sector’s development.

Reasons for the slow impact of resource development are varied and resource development generally takes significant time and investment. However, there is a belief among stakeholders in Mozambique that more can and should be done to ensure the extractives sector contributes to two fundamental development challenges: employment generation and greater financial inclusion.

This study aims to understand the interventions that are needed to catalyze financial sector growth and inclusion linked to the economic boom led by the extractives sector, and to answer three questions:

- What are the opportunities to expand appropriate financial services to SMEs, individuals and rural households that are driven by economic activities linked to the resource boom?
- What are the barriers to unleashing this potential?
- What role can the Financial Sector Deepening Moçambique (FSDMoç) program play in unleashing the potential?

There are significant opportunities to build on investments and economic activities associated with the extractives sector in Mozambique, including to improve financial inclusion. However, basic features of the sector relevant to this goal should be kept in mind. These include that the sector can suffer from cyclic market pressure, which can have ramifications throughout the economy, and it generates limited direct employment though greater indirect employment, which is generally better suited to the capacities of SMEs.

The 2014 mining and gas laws make it clear that extractives development must give priority to local content, local employment, local partners, and employment and training of Mozambicans. Along with other national requirements concerning employment, public procurement, corporate social responsibility, public private partnerships, investment law, public financial management and the like, such priorities could lead to a substantial positive impact of extractives on national development. However, local content, employment and development goals will not be maximized solely through legislation, especially with a poorly developed SME sector with few linkages to the rest of the economy and in particular to the finance services sector.

Financial inclusion in Mozambique is extremely low, particularly so in rural and remote areas, and among micro and small enterprises and poorer people. Low financial inclusion is a critical constraint to participation in cash-based economic activity. Demand for financial inclusion is affected by poverty, limited general and financial literacy, an absence of suitable inclusion incentives and tools, and consequently limited demand for financial services, whether available or otherwise. Mobile money services, especially where they extend beyond person-to-person remittances, can counter...
demand and supply side constraints to financial inclusion, and with appropriate support from the telecom and financial services sectors, government and industry can be the basis of improved financial skills and the optimization of Mozambican involvement in extractive-related economic opportunities.

There are numerous ways to expand financial services to SMEs, individuals and rural households, particularly those involved in the extractives industry sector. These include to expand mobile money services, have bank fees and services that encourage small-scale clients, promote bank agents, require mobile money operators and banks to contribute to a financial literacy training fund, ensure payment processes do not penalize suppliers, and to develop credit and other products attractive to SMEs.

Some barriers to improved financial service provision and local content and employment are entrenched. Others, however, can be more readily addressed. For example, SME/industry linkage programs and supplier development programs have shown that it is possible to help small firms perform in the supply value chain. Even medium sized firms, which are likely to be formally registered, have reasonable management and financial control systems and use some bank services, benefit from such support.

Nonetheless, there are three conceptual barriers that need to be addressed in developing policies and programs that might improve financial service provision and local content and employment:

- Realism on the potential contribution of SMEs to employment and local content in particular;
- Recognition of bank interests and roles in expanding financial inclusion; and
- Balanced policy development where the financial sector benefits from attention similar to that shown to the extractive industry

FSDMoç could have three main roles in improving financial service provision and local content and employment among SMEs, individuals and rural households active in investments and economic activity associated with the extractive sector.

One could be to take a lead in deepening understanding of the three “conceptual” barriers noted above.

A second could be to take a lead in policy development. One such area of need concerns the role and nature of mobile money services. Another policy area needing attention is the updating of the legal framework for financial services so that it better responds to the economic and social environment and to national development goals. At the least, FSDMoç could help identify and promote policy changes that could help the financial services sector to better support the individuals and smaller firms that are likely to be most involved with the extractives sector as employees and suppliers.

Finally, the FSDMoç could work with other stakeholders on specific practices that would strengthen financial deepening and the involvement of SMEs in local content provision.
2. Introduction

i. The extractives sector, national growth and the financial sector

There has been much excitement about Mozambique’s natural resource boom. Starting with significant ilmenite and coal discoveries a decade ago, and capped with the more recent globally significant finds of natural gas in the Rovuma Basin (not to mention the identification of a world-scale resource of graphite in the same northern Cabo Delgado province), mineral resources are of a scale to shift the economy to endogenous sustainability.

This potential is significant because while Mozambique has been Africa’s fastest growing non-oil economy for more than two decades, it is a country beset by poverty and a dualistic economy. Over half the population lives in poverty, and 80 per cent live and work in the agriculture sector where growth continues to be subdued due to low productivity caused inter alia by limited access to funding, farming inputs, technology and markets. Despite an historically high growth rate of around seven per cent, Mozambique ranks 178th out of 187 countries in the UNDP Human Development Index 2014; GDP per capita is around $600, and access to safe water is among the worst in the world.

Mozambique’s growth is increasingly coming from investment in the capital-intensive natural resource or “extractives” sector and the financial services sector (the growth of which is in good part supported by the extractives sector). The nation faces challenges in ensuring that the benefits from its natural resources exploitation reach the wider population, something that it has recognized since the first national mining law of 1986. As the exploitation of extractive resources (which, in the context of this paper they are mining and hydrocarbons) require capital-intensive investment, they normally do not provide a large number of direct employment opportunities. For this reason, Mozambique has prioritized generating revenue from the sector while focusing on job creation and local content as other means to benefit national development.

While promoting local content is an increasingly popular strategy globally to increase the positive national impact of extractives, it is commonly beset by constraints in national industrial production, human capital and access to finance. This is the case in Mozambique, though this paper focuses on access to finance as a challenge to building on the investments and economic opportunities associated with the extractives sector.

This does not mean that individuals and businesses linked to the resources sector should only have access to savings and lending services. This is required but “access to finance” should include financial products that meet communities’ commercial, social and capacity needs, including ready...

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1 Countries ranked lower are Guinea, Burundi, Burkina Faso, Eritrea, Sierra Leone, Chad, Central African Republic, Democratic Republic of Congo and Niger.
2 “Local content” is not yet defined in Mozambique law or policy. In common usage, local content generally implies sourcing goods and services from Mozambican-owned firms. The scale of such firms or their location (other than being in Mozambique) is generally not a critical consideration, and neither is the source of goods they may provide (i.e., whether they are made in Mozambique or imported). Local content is also loosely linked in society, government, industry and politics with the employment of nationals, which is a focus of the Labor Law and other laws. There is no priority in the law to hire people who live in the vicinity of the extractives industry site; in practice, most extractives firms prioritize the hiring of local people for appropriate (usually unskilled) tasks, and attempt to buy food from local communities. “Local content” is not widely used in Mozambique in the sense of adding value to raw materials through their processing or beneficiation for domestic use or export.
access to cash transfer and payment systems that are locally accessible, and support to strengthen financial literacy. Important aspects of the context of access to finance in Mozambique relative to the extractives sector include:

- About three-quarters of Mozambicans are “un-banked” (World Bank, 2014:14);
- The lack of access to credit is one of the top constraints to business (Dai and Nathan Associates, 2011:20);
- The wide range of scales of operation, management and financial skills, and business organization requires a range of tailored approaches; and
- Extractives companies generally operate under business principles and at a scale that is unprecedented in Mozambique, particularly in the areas where they are located.\(^3\)

In addition to extractives-related access to finance, this study takes a “Markets for the Poor” (M4P) approach (Donor Committee for Enterprise Development, no date). M4P acknowledges that markets are integral for the wealth creation of the poor, and that poor people lack economic opportunities because markets often have gaps or market failures. The M4P approach therefore analyses the market to discover why markets are failing the poor, and seeks solutions to causes rather than the identification of overlying symptoms.

M4P analysis takes place around the poor – which in this case includes rural households and individuals in areas around extractives industries, and micro and small-enterprises – and their wider socioeconomic context. It identifies the market systems where the poor conduct their economic activity, as well as systemic constraints around the core of the market such as the supporting functions and players. It identifies and develops interventions to address market failures and make sustainable change.

For example, by focusing on the Mozambique extractive resources boom, M4P could address the financial sector by attempting to understand the opportunities the extractives sector may hold for micro, small and medium enterprises (MSMEs)\(^4\) and the rural population (being the business sector most likely to involve poorer Mozambicans, as well as the populations living around extractives industry sites). In addition, it could analyse the market failures in the financial sector that could limit the extractives sector’s contribution to broad socioeconomic development. From an M4P perspective, the financial sector can be analysed from three perspectives: micro, macro and meso – which refer to the market level, financial sector policies and regulation, and the wider infrastructure of the financial sector. Clearly there are numerous stakeholders in any effort to strengthen local contributions to and benefits from the extractives sector. The main ones are shown in Figure 1; we will use this diagram as a lens for the study, examining the relationship between the parts.

ii. The study

This study aims to understand, using an M4P approach, the interventions that are needed to catalyse financial sector growth and inclusion linked to the economic boom led by the extractives sector, and to answer three questions:

- What are the opportunities to expand appropriate financial services to SMEs, individuals and rural households that are driven by economic activities linked to the resource boom?
- What are the barriers to unleashing this potential?
- What role can FSDMOÇ program play in unleashing the potential?

\(^3\) References are listed in Annex 1.
\(^4\) “SME” (small and medium enterprise) is generally used in this study interchangeably with “MSME” (micro, small and medium enterprises).
While the study is to be based on an analysis and knowledge of the extractives and financial sectors in Mozambique, it is fundamentally an introductory analysis or an “ideas piece” that identifies opportunities to increase financial inclusion by building on the investments and economic activities associated with the extractives sector.

The study has five main sections following this introduction.

The first reviews the status and prognosis for the mining and gas sectors. It also covers the legislative basis of sector activity and development.

The second section examines how the extractives sector facilitates and encourages investment and economic activity. Particular attention is given to the employment impacts, linkages and other supplier support activities, and local content programs.

The financial services sector is reviewed in the third section. This includes an analysis of the banking and microfinance sectors, mobile money and electronic banking. Discussion on access to finance covers both unbanked individuals and businesses.
One point that comes through in the above sections is the different priorities of the primary stakeholders in access to finance. The fourth section examines this issue, linking it to M4P analytical perspectives and provides the setting for the report’s conclusion and recommendations.

The final section presents recommendations around the three points requested in the Terms of Reference:

- Opportunities to expand financial services to SMEs, individuals and rural households that are driven by economic activities linked to the resources boom;
- Barriers to unleashing this potential; and
- The role the FSDMoç program could play in unleashing the potential.
3. The Extractives Sector

i. Status

Mozambique is endowed with a range of mineral resources. Although natural gas in the Rovuma Basin is the largest in terms of resource size, Mozambique is also rich in other minerals such as coal, heavy sands, graphite, precious and semi-precious stones, iron ore and gold. These resources are examined below, in particular their investment activity and location, which is also summarized in Annex 2.5

The areas where most of the extractive resources are located in Mozambique are relatively undeveloped, including in terms of commercial activity. Consequently, existing “near-by” centers (some of which are hundreds of kilometres distant) as sources of some services and goods, and for administrative and logistics support. Tete, Moatize, Beira, Nampula, Nacala, Palma, Pemba, Montepuez, Vilankulos and Maputo have seen or are likely to see growth in economic activity driven by the extractives sector. Main mineral locations and these economic centers are shown in Figure 2.

Figure 2: Location of Mining and Gas Industries in Mozambique

Source: Company and media websites.

5 The review here and in Annex 2 does not take into account exploration activities and initial finds of rare earths (including tantalum), phosphate and nickel given their to-be-confirmed status, nor of course of future discoveries, which may be significant given the under-explored state of Mozambique’s geological resources.
Gas and petroleum

Mozambique has been producing gas since 2004 in the Pande and Temane gas fields in Inhambane operated by Sasol. The field has reserves of 5 tcf (trillion cubic feet), and the majority of the gas produced is transferred by pipeline to South Africa. The Government of Mozambique (GoM) began to use some of its domestic gas allocation in 2012 to service parts of Matola and Maputo, and since 2014 some of this gas has been used to feed two power stations at Ressano Garcia. Small amounts of light crude oil (2,000 barrels of oil per day) have recently been found onshore by Sasol at Inhassoro near the Pande and Temane gas fields, production of which is due to start in 2015.

The large gas finds in the Rovuma Basin, where exploration started after a 2006 licensing round, have generated much interest in the country and abroad. Currently, productive activity in the Rovuma Basin is in Area 1 and 4, where the lead operators are Anadarko and ENI, respectively; they have combined gas reserves of around 200 tcf. Petronas, which has the license for Areas 2 and 5, has had less success. In 2013 Statoil exited from its license for Areas 3 and 6, though its stake was bought by Tullow Oil which will continue exploration activity but with a focus on oil. A fifth onshore/offshore licensing round is now under adjudication, with some proposals being made by global majors.

To transport and use the natural gas, it needs to be liquefied i.e., to Liquefied Natural Gas (LNG). Liquefaction train construction can only take place after a Final Investment Decision (FID) is made, the FID being preceded by Front End Engineering and Design, confirmed long term sales agreements for LNG, and independent certification of reserves. Anadarko and ENI are currently involved in these processes. In December 2014 government published a decree-law aimed at stabilizing the financial and legal environment of the industry so the FID and investment for production can go ahead.

While the global hydrocarbon market has contracted significantly since 2013, it is still predicted that the Anadarko FID will be taken, positively, in early 2016. This would be for the first two trains (which require a $23 billion investment), and could see first LNG production in 2020/2021; the engineering, procurement and construction (EPC) contract has been awarded. Anadarko and ENI have progressed with unitisation agreements with their shared field. ENI is also planning to construct an offshore processing plant.

Coal

Modern coal investment began in Mozambique in 2004 with the Vale purchase of its Moatize tenement. At that time there was great enthusiasm for the industry. A large percentage of the coal was deemed high quality coking coal, and production was expected to reach 100 million tpa (tonnes per annum). Infrastructure constraints were assumed to be the primary limitation, and investment started on several rail lines, notably on an upgrade of the Sena line to Beira port and a line linking Vale’s resource to the Nacala line and port. Exploration also took place in the Maniamba basin in Niassa where some believe that deposits could equal those in Tete (GIZ, no date).

Since 2013, however, the coal outlook in Mozambique is less optimistic, in large part in line with international perspectives. Coal prices have dropped significantly. Coking coal fell from $350 per tonne during 2011 to around $90 a tonne in June 2015, and thermal coal prices dropped 55 per cent over the same period. There have also been downward revisions to Mozambique’s coal quality, meaning that it will be priced at a discount. The anticipated upgrades and new transport infrastructure are also yet to come online at promised scale and reliability, so contributing to unmet export projections. The coal industry is uneconomic at current prices and costs (e.g., production costs at the ICVL (International Coal Ventures Private Limited) Benga mine are $165 per tonne with mine-to-ship costs of up to $85 per tonne; the production/transport differential is even more severe on the recently completed rail line to Nacala) (allafrica.com, 2014).

In response to this quality, price and logistics scenario, there have been significant withdrawals and sales of coal resources; only three Tete area mines are currently in production (see Annex 2). The
2014 sale by Rio Tinto Coal Mozambique of its coal assets to ICVL for $50 million (compared with a buying price of over $3 billion and another $1.7 billion investment expenditure) initiated a broader transfer of tenements and a scaling down of production. In addition to the three operating mines, one has declared bankruptcy, one has been seeking a buyer for some years, one is only being prepared for power production, and another four major firms are engaged in prolonged exploration.

All major coal companies in Tete province have provided significant support to local technical schools, local employment, skills development through in-house training programs, local procurement chain development and corporate social development projects. Since 2012, however, much of this expenditure and the related programs have been scaled down or even ended.

Heavy sands

Heavy sands are an important source of minerals such as zirconium and titanium. Titanium produces ilmenite and rutile which can be used to make pigments for paints, paper, plastic, pharmaceutical products and rubber. Zircon is used as an abrasive and an insulator. Mozambique has the potential to be one of the largest producers of ilmenite globally.

There are ten companies with heavy sands resources. Kenmare Resources, one of the early “megaprojects” in Mozambique, has been operating for the longest, since 2007. However, at present it is suffering from declining product prices and is undergoing significant cost reductions, including the laying-off of staff. It is also in the process of a likely buy-out. The only other heavy sands firm in operation is Haiyu, which operates near Kenmare in Nampula province, but at a much smaller scale.

Graphite

Cabo Delgado has recently been established as having the world’s largest graphite resources; it is said there is more graphite around Balama (and which is high quality and easily mined) than in the rest of the world’s resources combined. Commercial production may start in 2016-2017. Two firms, Triton Minerals and Syrah Resources, have long-term sales agreements with Chinese companies. Triton and a Chinese partner will invest in processing lines that could produce 10,000 tpa of derivative products.

Iron ore

Iron ore is not mined at scale in Mozambique even though some high-grade, limited volume resources have been located. One firm has a small mine at Lalaua, Nampula. The mine likely to develop at scale soonest is Baobab Resources in Tete; if finance is confirmed, Baobab plans to develop through Capitol Iron & Steel Lda. a 500,000 tpa steel plant to consume the mine’s ore, using locally available thermal coal and carbonate as the other two main raw materials.

Gemstones and gold

Gemstones and gold are mainly mined by artisanal and small scale miners (garimpeiros). Two formal gemstone operations are underway in Niassa and Cabo Delgado provinces, and there are plans to develop a gold mine by Auroch Minerals Manica.

Artisanal and small-scale mining

Many Mozambicans and foreigners from surrounding countries practice artisanal and small-scale mining (ASM), primarily for gemstones and gold. Over the past five years or so, government has improved regulation of the sector (e.g., through the 2014 Mining Act). It has also sought to make compulsory primary processing in Mozambique, such as is now done by Mozambique Gems in Moma, Nampula, which employs almost 50 national and expatriate staff.
While being under-capitalized and to some extent seasonal, ASM is the mining activity with the greatest direct employment in Mozambique: there are currently about 100,000 artisanal and small scale miners, which means that up to 500,000 additional family members are directly dependent on ASM.

ii. Outlook and employment perspective

As implied in the above summary review, important features of the national extractives sector include:

- The resource base is far from fully explored;
- The mining sector, and coal in particular, is in a significant down-turn driven by price trends (Figure 3) and logistics issues (transport and energy supply, in particular);
- Mine and gas development costs in Mozambique are generally high because most are green-field developments in remote locations where there is minimal production infrastructure (energy, water) or transport infrastructure, and limited suitable skilled or unskilled labor;
- Supply contract cancellations, staff reductions and corporate financial restructuring are presently common, especially for coal and heavy sands; and
- Preliminary work on onshore infrastructure related to gas has begun, but the final investment decision for processing has yet to be taken.

As importantly, the scale of actual operation is currently not significant compared with national needs in areas like employment and economic development. Current operating mines, gas fields and mineral processing plant employ perhaps 6,400 people, and the mines and gas fields in development another 8,300, for a total of 14,700 (Table 1). When Anadarko and ENI gas development starts, there could be another 15-20,000 jobs created – though this number will drop to 500 during production, of which 150-300 will be highly skilled (Pyxera Global, 2014).

The employment of locals in the formal mining sector has faced constraints, in particular a cited lack of skilled technicians in the local market (Besharati, 2012). More recently, it has suffered from the market down-turns noted above. However, it is worth noting that artisanal and small scale mining employs more than six times as many people (though many part-time) as the formal mining and gas sector.

Mining (and gas) in fact does not create a lot of direct employment. ICMM (2014) estimates direct job creation by mining is rarely more than 1-2 per cent of total national employment. Zambia, a mature mining economy, suggests how a mining sector can create employment. There, the mines themselves employ 20,300 directly, plus another 35,900 as contractors. Indirect employment totals 91,500, which comes from goods and service providers (7,400 jobs), social spending (9,600 jobs) and employment supported by staff and contractors spending salaries (74,500 jobs) (Zambia Chamber of Mines, 2014). This approximate 1:7 multiplier effect of direct mining company jobs to other jobs is relatively standard in the mining industry internationally, although it should be noted that Zambia does not have particularly strong local content or local employment policies.

6 The Five Year Plan, 2015-2019, has a goal of creating 1.5 million new jobs, or 300,000 per year. There are about 300,000 school leavers annually in Mozambique (Aaboe and Kring, 2013).
7 These employment figures are estimates from various sources of company staff and subcontractors working on site, and are from a low period when companies are limiting investment and development. However, against an estimated direct employment of 10,800 in the mining sector by 2016 (Aaboe and Kring, 2013), the current 2015 levels are only 59 per cent of this (about 6,400).
### Figure 3: Commodity Price Changes, 2011-2014

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<td>-15</td>
<td>-30</td>
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<tr>
<td>Coking Coal</td>
<td>-15</td>
<td>5</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Liquefied Natural Gas</td>
<td>-10</td>
<td>0</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Ilmenite</td>
<td>-20</td>
<td>0</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Zircon</td>
<td>-30</td>
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<td>0</td>
<td>5</td>
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<tr>
<td>Graphite</td>
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</tr>
<tr>
<td>Gold</td>
<td>-50</td>
<td>-40</td>
<td>-30</td>
<td>-20</td>
</tr>
</tbody>
</table>


### Table 1: Current Employment in Mining and Gas Industries

<table>
<thead>
<tr>
<th>Company</th>
<th>In Production Employment</th>
<th>Company</th>
<th>In Development Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vale (incl. Phase 2)</td>
<td>2,500</td>
<td>Minas de Revuboê</td>
<td>300</td>
</tr>
<tr>
<td>ICVL</td>
<td>700</td>
<td>Sunflag</td>
<td>300</td>
</tr>
<tr>
<td>Jindal</td>
<td>500</td>
<td>Ncondezi</td>
<td>500</td>
</tr>
<tr>
<td>Kenmare</td>
<td>1,400</td>
<td>Syrah Resources</td>
<td>700</td>
</tr>
<tr>
<td>Haiyu</td>
<td>300</td>
<td>Triton Minerals</td>
<td>700</td>
</tr>
<tr>
<td>Damodar</td>
<td>150</td>
<td>Baobab Resources</td>
<td>300</td>
</tr>
<tr>
<td>Gemfields</td>
<td>150</td>
<td>ENI and Anadarko</td>
<td>5,000</td>
</tr>
<tr>
<td>Vision 2000</td>
<td>100</td>
<td>Sasol</td>
<td>500</td>
</tr>
<tr>
<td>Sasol</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mozal</td>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,400</strong></td>
<td><strong>8,300</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Estimates from media, company websites and personal correspondence.*

### iii. Legislative context

Mozambique has introduced mining and petroleum laws since independence. Since the first Mining Law in 1986 (Law 2/1986), the need of the sector to contribute to the economic and social development of the country has always been stressed, and government has shown a commitment that resources should be developed in a way that maximises their positive impact for Mozambique.

Several of the laws and decrees have encouraged local content in the sector. These include the National Policy for Mineral Resources (Law 4/1998), which stressed the need for mineral products to be processed nationally, and the 2004 Petroleum Regulations (Decree 24/2004) which emphasised that preferential treatment should be given to the purchase of local goods and services providing they are comparable in terms of quality, quantity, and offered at prices inclusive of taxes no more than 10 per cent higher than imported equivalents.
Mining and gas legislation revised in 2014\(^8\) gives priority to value adding activities undertaken in Mozambique. The objective of such policy is to increase the economic benefit through revenue generation, employment and skills development, and the development of ancillary industries and infrastructure. Local content is also included in national development plans such as the poverty reduction plan, PARP (2011-2014), and the government 5-year plan, 2015-2019. However, aside from labor law, there is no legal or policy framework to guide local content requirements.

The 2014 mining and petroleum laws include a requirement that foreign service-providers should be associated with a Mozambican partner. In addition, all companies must ensure employment and training for Mozambicans, funds from government revenues must be allocated by government to local communities, and 25 per cent of gas production must be allocated to the domestic market. Regulation of these laws should reveal the specifics of such requirements.

Table 2: Local Content Obligations in the 2014 Mining and Petroleum Laws

<table>
<thead>
<tr>
<th>Local Content Area</th>
<th>Mining Law (20/2014)</th>
<th>Petroleum Law (21/2014)</th>
<th>Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract</td>
<td>Article 8</td>
<td>-</td>
<td>Mining contracts require state participation in mining ventures, local content, local employment and technical or professional training programs, social responsibility activities, and local community development.</td>
</tr>
<tr>
<td>Local Procurement</td>
<td>Article 22 &amp; 34</td>
<td>Article 13 &amp; 41</td>
<td>Foreign service-providers must be associated with Mozambican companies. Companies must give preference to local products and services that are do not cost more than 10 per cent than imported equivalents.</td>
</tr>
<tr>
<td>Employment and Training of Mozambicans</td>
<td>Article 33 &amp; 36</td>
<td>Article 12 &amp; 15</td>
<td>Companies must ensure employment and training for Mozambicans, with preference for those who live locally.</td>
</tr>
<tr>
<td>Domestic Market Obligation</td>
<td>Article 21 &amp; 34</td>
<td>Article 35 &amp; 49</td>
<td>25 per cent of gas production to be committed to the domestic market. Companies may be required to sell gas at market/negotiable prices for use by local industry.</td>
</tr>
<tr>
<td>Association with a Mozambican Entity</td>
<td>-</td>
<td>Article 26</td>
<td>In the awarding of concession contracts, preference will be given to foreign companies that associate with Mozambican companies.</td>
</tr>
<tr>
<td>Limitation on Tax Benefits on Imports</td>
<td>Article 53 (Mining Tax Law 28/2014)</td>
<td>Article 35 (Petroleum Tax Law 27/2014)</td>
<td>Exemptions on import custom duties limited to five years. Benefits only given when the goods to be imported are not produced in national territory, or if produced nationally are not of sufficient quality.</td>
</tr>
<tr>
<td>Registration on the Stock Exchange</td>
<td>Article 34</td>
<td>Article 13</td>
<td>Oil and gas companies must be registered in Mozambique’s Stock Exchange; mining companies are encouraged to register.</td>
</tr>
<tr>
<td>Local Community Development</td>
<td>Article 20</td>
<td>Article 19 &amp; 48</td>
<td>A percentage of State revenues generated by mining activities will be allocated to the development of the communities where activities take place.</td>
</tr>
<tr>
<td>Resettlement and Compensation</td>
<td>Article 30 &amp; 31</td>
<td>Article 7, 8 &amp; 42</td>
<td>Fair compensation must be provided and affected populations guaranteed dignified, improved living conditions. Required in allocation of exploration rights.</td>
</tr>
</tbody>
</table>


Government has offered fiscal benefits to attract international investors, including in the extractives sector, to Mozambique. One such incentive is the exemption of custom duties or import tariffs on particular goods and for varying time frames. While significant in company investment decisions and their operating costs and procedures, this incentive can have negative impacts on local content.

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\(^8\) Mining Law, Law 20/2014, 18\(^{th}\) August 2014 and Petroleum Law, Law 21/2014, 18\(^{th}\) August 2014.
provision. While the national investment law\(^9\) continues fiscal incentives, the mining and petroleum tax laws (Laws 28/2014 and 27/2014)\(^10\) offer greater definition in this regard.

The relevant requirements from the mining and petroleum laws are summarized in Table 2.\(^11\) However, it is important to note that a number of other laws have implications for local content and employment in mining and should be taken into account by both investors and others seeking to maximize national benefits from the extractives sector.\(^12\)

iv. Conclusion

There are and will be significant opportunities to build on investments and economic activities associated with the extractives sector in Mozambique, including to improve financial inclusion. However, some basic features of the sector relevant to this goal should be kept in mind. These include:

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\(^11\) The 2014 mining and petroleum laws, on the whole, apply only to new concessions/contracts, though there is a provision for existing operations to opt to be covered by the new laws. For gas this allows for fiscal stabilization, under certain conditions, for up to 30 years. An example of fiscal incentives offered to extractives investors is that in the ENI contract (available on the Ministério dos Recursos Minerais e Energia (MIREME) website), Section 11.2 of which exempts contractors from: custom duties on imports to be used in petroleum operations, vehicles and other imported supplies (excluding light vehicles); duties and other customs, and fiscal charges on goods temporarily imported for use in petroleum operations; and, Value Added Tax on imports.

\(^12\) Corporate Social Responsibility Resolution (Resolution 21/2014): Directs that corporate social responsibility (CSR), in terms of local economic development, should be harmonized with the development plans of local communities, support the development of Mozambican companies, and develop their capacity and encourage local employment and the acquisition of local goods and services.

Public Private Partnerships, Large Scale Projects and Business Concessions Law (Law 15/2011) and Regulations (Decree 16/2012): Article 34 of the Public Private Partnership (PPP) Law states that the PPP investment must benefit the Mozambican economy and create jobs for Mozambicans, offer opportunities for technology transfer to locals, and help build local SMEs. Article 33 makes provisions for PPPs, large-scale projects and business concessions to promote the inclusion of Mozambican investors by encouraging between 5-20 per cent of investment shares to be offered on the local stock market.

Law on Investment (Law 3/93), Regulation of the Investment Law (Decree 43/2009) and Code of Fiscal Benefits (Law 4/2009): Article 18 of the Code of Fiscal Benefits permits tax benefits for the cost of investment in professional training of Mozambican employees up to a maximum amount equal to 5 per cent of taxable income. Training on the use of equipment that is new technology can be up to 10 per cent of taxable income.

Procurement Regulations (Decree 15/2010): Contain nationality criteria that favour local firms. Tenders should restrict participation based on nationality or provide a preferential margin to national bidders or nationally produced goods (Article 26). The margins are 10 per cent of the pre-tax contract value for public works and 15 per cent of the pre-tax contract value for nationally produced goods. To benefit from the preference, a bidder must demonstrate that at least 25 per cent of the finished item at factory door contains national inputs. “National” is a Mozambican national or a company with at least 50 percent of capital held by Mozambicans.

Regulation for the Contracting of Foreign Citizens for the Petroleum and Mining Sector (Decree 63/2011): Regulation of employing foreign citizens in the petroleum and mining sectors requires that investors make their best effort to hire Mozambicans where possible throughout their operations.

Law for Professional Education (Law 25/2014): Created a National Training Fund for Professional Education funded by a payroll levy of up to 1 per cent.
• **The Mozambican extractives sector should be economically important for decades.** Mining and the gas/oil industry are at an early stage of development, but based on known gas and mining resources, the extractives sector should play a significant role in the national economy for decades to come;

• **The sector can suffer from cyclic market pressure, which can have ramifications throughout the economy.** Minerals, including hydrocarbons, are subject to significant market and price pressure. At present most of the sector is suffering from this pressure, as are a broad range of national and international businesses associated with the sector;

• **The extractives sector generates limited direct employment.** Employment generated by the formal mining and gas industries is limited, and will not have a major impact on the employment market, which is increasing by some 300,000 individuals annually;

• **Significant indirect employment is generated by the mining and gas sectors.** In Zambia for each one job created in a mine, seven are created elsewhere as contractors to mines, suppliers of goods and services to mines, suppliers of social services and, particularly, by the salary spend of mining sector employees. In the gas sector, where operational needs are more specialized than most mining, indirect employment will be significant in downstream, gas-based industry; and

• **National economic impact of extractives can be enhanced through legislation and other policies.** Policies on local content, procurement, value added, employment, national investment participation and the contribution of the sector to national economic and social development can maximize economic activities associated with extractives. Mozambique has long prioritized these areas in legislation and policy.

The extractives sector in Mozambique could provide significant opportunities for Mozambicans to be economically active. However, the areas where extractives are largely located generally have limited formal financial services and the inhabitants are poor, and so generally have low rates of financial inclusion. Micro and small enterprises have similarly low inclusion rates. These enterprises are likely to be significant suppliers of the goods and services driven by salary spend and the needs of medium businesses, and by the pressure of the mining and gas operators and their prime contractors to show significant local content and employment. How these potential forces for economic development and financial inclusion will play out will depend in part how the extractives sector supports investment and economic investment, which is the subject of the following section.
4. Extractives Sector Support for Investment and Economic Activities

i. Employment and local content in the extractives sector

A summary of likely employment in the Mozambican extractives sector is provided in Table 3. Points relevant to this study concerning employment and local procurement are:

- While direct and indirect employment opportunities will be developed for Mozambicans through staff/contractor employment in the sector, the largest incremental employment is likely to come from the spending of salaries by employees and contractors of the production industry and its prime contractors. In the mining sector in Zambia, which is a relevant if not ideal comparator, employment generated by salary spending is 1.6 times as great as all other private sector employment generated by the sector;
- Over time, the significant downstream industries foreseen in the Gas Master Plan such as fertiliser, gas-to-liquids and methanol production (ICF International, 2012, which is the “Gas Master Plan”) will have similar employment generation patterns as summarized in Table 3;
- These employment patterns can change in response to the implementation of national local content, industrial and employment policies. Over time, Mozambicans will assume an increasing number of high skill functions, though foreign specialists and contractors are likely to remain significant in the gas and derivatives sector into the long-term (though less-so in the mining sector);
- Mozambican large and medium firms will be directly involved in providing direct and indirect services to the extractives sector, and will be a major employer of smaller Mozambican firms and individuals; and
- Small and micro Mozambican enterprises are likely to be most active (but not alone) in supplying goods and services that are “induced”, that is, serving the salary expenditures of staff or contractors throughout the extractives value chain. This is particularly likely to be so if national macroeconomic or other policy encourages these products and services to be regarded as “local content.”

Examples of the services that can be supplied to extractives industries are in Figure 4. The largest opportunities for Mozambican SMEs are in indirect services. Larger firms could provide direct services.

ii. SME/industry linkage programs

Given the potential linkages between the extractives sector and its indirect services (that are more likely to be provided nationally in Mozambique than, at present, most direct services), priority can be given to creating linkages between the sector and potential local suppliers. Such linkage creation depends on a mixture of local content policy, the will of the international companies to source locally and the capacity of local suppliers to deliver the required goods and services, including in terms of the incentives created by national macroeconomic policy. In the light of the role of linkage programs in developing local capacity, especially of SMEs, it is helpful to review aspects of Mozambique’s experience with them and, in summary, other African linkage programs in the extractives sector.

The first “mega project” in Mozambique – the construction in the 1990s and subsequent operation of the Mozal alumina production plant – led to the development of MozLink (IFC and Mozal Aluminium,
Table 3: Employment Generation by the Extractives Sector

<table>
<thead>
<tr>
<th>Employer</th>
<th>Type of Employment</th>
<th>Example</th>
<th>Likely Suppliers</th>
<th>Comment</th>
</tr>
</thead>
</table>
| Extractives industry            | Direct. Specialist, non-specialist; direct hire and contracted | Specialized construction and operation skills; semi-skilled and un-skilled labor | International direct hire and contractors; limited employment of Mozambicans    | **•** Significant goods procurement by value will be offshore
**•** Employment during construction up to ten-times that during operation
**•** 50-65 per cent of production value in mining can go to procurement; it is considerably higher in the gas industry
**•** Direct employment by mines in Zambia is 14 per cent of the sector’s direct, indirect and induced employment. |
| Prime contractors to extractives industry | Direct. Specialist, non-specialist; direct hire and contracted | Staff and subcontractors of EPC contractors; specialized, semi-skilled and un-skilled labor | International direct hire and contractors, larger Mozambican firms and individuals | **•** Larger Mozambican firms are likely to be based in Maputo, Beira or Nampula
**•** Contractor employment by mines in Zambia is 24 per cent of the sector’s direct, indirect and induced employment. |
| Subcontractors of prime contractors | Indirect. Specialist, non-specialist; direct hire and contracted | Contracted services like plumbing, security and catering | Mainly large and medium national firms; will source staff/contractors nationally | -                                                                                           |
| National firms, SMEs, and micro firms | Induced. Retail services and goods | Meals and transport to employees of above, and consumer items for them and their dependents | Medium/large national firms, small firms, micro firms; usually present in local economy | **•** Employment by providers of local goods and services and the social services of extractives industry and prime contractors, and as a result of spending of staff and contractor salaries is likely to exceed direct and indirect employment. In Zambia it accounts for 62 per cent of sector generated employment. |

**Source:** Field observation, ICMM (2014).
2008), the first megaproject/SME linkage program in the country. The purpose of MozLink was to focus on the training and skills development of local SMEs that had the potential to become suppliers of Mozal. Run by the Centre for the Promotion of Investments (CPI) and the International Finance Corporation (IFC), the program had three stages: the Small and Medium Enterprise Empowerment and Linkages Program (SMEELP, 2001-2003), MozLink I (2003-2007), and MozLink II (2007-2010). MozLink had early success, and the approach spread via MozLink II to other foreign investments such as Sasol, Coca-Cola and South African Breweries. The MozLink program is regarded by many as a model for local skills and content development not just for Mozambique but for other countries as well.

Initial surveys conducted by MozLink with potential SMEs found that linkages were unlikely to occur because of a low formal enterprise base. Specific constraints SMEs faced were inability to partake in the tender bidding process, poor ability to meet international trade standards, low product quality, outdated equipment, unreliability in meeting deadlines and ensuring regular supply, management weaknesses and poor financial management (DAI and Nathan Associates, 2012; Buur, 2014).

SMEELP was launched to develop Mozambican SMEs that were deemed to have the most potential to operate in linkage with Mozal. The program’s main components were the creation of an SME database, redesign and unbundling of Mozal standard contracts to suit the Mozambican business reality, and information exchange, training and mentoring. These adjustments were based in part on Mozal’s experience with Mozambican SMEs during plant construction.
MozLink I focused on providing loans to SMEs by financial institutions as well as technical capacity training. MozLink II expanded the scheme to other foreign investments through three-year supply-chain programs aimed at strengthening the business and technical capabilities of SMEs (Ernst and Young, 2010).

IFC claimed that MozLink II trained 75 SMEs, secured $20 million in revenues for SMEs, and had a 40 per cent growth in contract development by MozLink corporate partners (Buur, 2014).

However, the success of the program has been questioned in that its results were limited in number and scope. Krause and Kaufman (2011) point out that the program mainly resulted in the creation of a small market niche for local firms that depend almost completely on Mozal. In fact, the program mainly gave assistance to the same firms during the different MozLink stages (IFC and Mozal Aluminium, 2008). In sum, while significant, MozLink’s achievements did not include enlarging the general pool of capable SMEs beyond Mozal’s needs.

The main lessons from MozLink identified by a Support Program for Economic and Enterprise Development (SPEED) report (DAI and Nathan Associates, 2013) include:

- The commitment of the multinational company to SME development is critical;
- The linkage program needs to be part of a company’s business strategy rather than a CSR program;
- SME expectations need to be managed and aligned with the training elements of the program rather than thought of as just winning contracts; and
- MozLink’s access to finance for SMEs was not satisfactory and did not manage to bypass the constraints to finance that many SMEs face.

In addition to the above lessons from MozLink, some lessons from other African linkage programs in the extractives sector on financing of SMEs appear relevant to Mozambique. These include:

- Providing SME suppliers with loans (Sasol Siyakha Enterprise and Supplier Development Fund, South Africa);
- Unsecured loans, flexible financing mechanisms and equity stakes in SMEs (Anglo-American Zimele Supply Chain Fund, South Africa);
- Involving banks in an industry committee on promising SMEs and funding local entrepreneurs along with a respected counterpart financier (Copperbelt SME Suppliers Development Program, Zambia); and
- Early identification of financing needs by SMEs and accelerated company payment processing (Newmont Mining Ahafo Linkages Program, Ghana).

iii. Local procurement

In practice in Mozambique, the priority given by government to local content is only slowly translating into benefits for the SME sector. Some of the reasons for this are on the demand side (e.g., limited demand for local content, especially that supplied by SMEs). Supply side constraints include limited information and awareness by industry and government on procurement needs and standards; confusion about requirements for local content; weak managerial, technical and financial capacity of many SMEs; and low levels of monitoring and enforcement (DAI and Nathan Associates, 2013). Also, State institutions and their required role in local content programs may also be bypassed by foreign investors and the political leadership (Buur, 2014).
There are other challenges to local content supply. There may be miscomprehension about which goods and services are likely to be suited for local supply, the extent to which “local suppliers” are Mozambican and whether the ultimate origin of products and services need to be Mozambique if the firm is Mozambican. Import duty exemptions also generally make the supply of equivalent local products uncompetitive.

Of course, local content suppliers are not necessarily only SMEs. And more generally, SMEs in any sector in Mozambique face additional challenges:

- An unknown but significant amount of business is handled by firms created by people in positions of authority or influence who have access to supply contracts that do not necessarily follow competitive bidding processes, and which in other conditions might be successfully bid for by SMEs;
- The variety of definitions used for “SME” means that “SMEs” qualifying for “SME lines of credit” in the banking system (which are often supplied by development partners) do not in fact benefit SMEs as defined by government (in part because the larger the firm, generally the less risky the investment for a bank);
- In any economy, small businesses have high failure rates (up to 80 per cent over three years in many developed economies), something that is unlikely to be different in Mozambique; and
- Around 200 million formal and informal MSMEs in developing economies lack credit, and an estimated 55-68 per cent of formal SMEs lack adequate financing (Newnham, 2014). Again, it is unlikely that Mozambican SMEs would face a much differing scenario.

While the above challenges are significant, it is also apparent that insufficient attention has been given to supporting links between industry/SMEs and financial services. While business development services are a necessary component of local content support, they should be pursued in parallel to access to finance. Mobilizing sources of new capital and investment for growing local businesses is a fundamental enabler for a successful local content program and policy initiative (DAI and Nathan Associates, 2013).

Independent data on direct and indirect employment and local procurement generated by the extractives sector is not readily available. We therefore use company generated data to show aspects of the current situation (see Table 4).

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14 Many of the products required by the extractives sector are not available in Mozambique; industry analyses often come up with a rate by value of 5-10 per cent of all procurement that is sourced as local content. Even “indirect supplies” (such as food and catering) that would seem suited for local purchase are often imported on the argument of reliable quantity, quality and delivery.

15 Local procurement and nationality requirements are clearer for public procurement and could be one basis for defining “local procurement” as it applies to the extractives sector. The national Procurement Regulation (Decree 15/2010) contains nationality criteria that favour local firms. It requires tenders to either restrict participation based on nationality or provide a preferential margin to national bidders or nationally produced goods. The margins are 10 per cent of the pre-tax contract value for public works and 15 per cent of the pre-tax contract value for nationally produced goods. To benefit from the preference, a bidder must demonstrate that at least 25 per cent of the finished item at factory door contains national inputs. “National” is a Mozambican national or a company with at least 50 per cent of capital held by Mozambicans.

16 A size definition of SMEs is not included in the 2007 SME development strategy (Government of Mozambique, 2007). However, in 2011 the Government of Mozambique (Decree 44/2011 of 21 September) defined micro enterprises as those with less than 5 employees and an annual turnover of less than MZN 1.2 million; small as having 5-49 employees and an annual turnover of MZN 1.2 million to 14.7 million; and medium as having 50-100 employees and an annual turnover of MZN 14.7 million to 30 million. Bank of Commerce and Industry (BCI’s) definitions of firms is based on annual turnover, as follows: less than MZN 0.9 million for micro enterprises, MZN 0.9 -200 million for small and medium firms, and more than MZN 200 million for large firms.
Local procurement by mega-projects has been growing rapidly, increasing from $45 million in 2002 to $350 million in 2011 according to the then Minister of Planning and Development, Aiuba Cuereneia (Mozambique News Agency, 2012). The number of local companies that have long-term contracts with the larger extractives companies is about 80 per extractive company, while contracts with occasional suppliers have reached more than 1,000 per year per company. Cuereneia estimated that the Tete mining companies had generated 50,000 indirect jobs in small-scale activities.

Mining projects with limited value-added in-country can generate few linkages to the rest of the economy and so lead to a limited number of additional jobs (Sonne-Schimdt, Arndt and Magaua, 2009:12). There are exceptions: Sasol and GoM had an agreement that local sources should account for 15 per cent of procurement but by 2009 a rate of 29 per cent had been achieved (Sasol, no date).

<table>
<thead>
<tr>
<th>Company</th>
<th>SMEs Affected</th>
<th>Value</th>
<th>Employment</th>
<th>Other Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vale</td>
<td>60 per cent of purchases were made in Mozambique in 2012 and 60 per cent of these were made in the provinces.</td>
<td>$330 million on hiring services from SMEs (construction phase)</td>
<td>1,000 permanent contractor staff, 10,700 on Nacala corridor. 82 per cent of employees are Mozambican.</td>
<td>Conducted a survey in Tete and Moatize of SMEs that could potentially be utilised as suppliers.</td>
</tr>
<tr>
<td>Rio Tinto</td>
<td>560 local companies contacted – in construction, equipment, fuel, mining services, coal transport, personnel transport, security services, catering, consulting services and office supplies.</td>
<td>$120 million (80 per cent) awarded to Mozambicans (2011). $250 million (2012) $295 million (2013)</td>
<td>1,000</td>
<td>Business centre in Tete offers training to SMEs and registers SMEs to create a database of potential suppliers. 150+ companies registered.</td>
</tr>
<tr>
<td>Sasol</td>
<td>200 contracts (during project development phase)</td>
<td>$12 million</td>
<td>1,500 employed for 20 months during construction phase of Sasol pipeline. Employs 183 people during operation phase.</td>
<td>Provides technical and business development support. Pays 10 per cent premium to local suppliers if goods are of comparable quality, quantity and competitiveness to international firms. Holds a supplier database and supplier awareness days.</td>
</tr>
<tr>
<td>Anadarko</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>900 registered local suppliers in database. 29 local service providers train enterprises to meet international standards, holds awareness days.</td>
</tr>
</tbody>
</table>

Table 4: Examples of Local Procurement and Employment

Given that agriculture is Mozambique’s main source of employment, it would seem that food supply to industry catering services should be a local procurement success case but this is not so. Three constraints to food supply are often cited as challenges to food producers, especially in local communities:

- **Quantity**: volumes can be significant – at one stage, Vale required 1,500 kg of chicken per day;
- **Quality**: predictable high quality is paramount; and
- **Reliability**: delivery at agreed times, and to quality and quantity requirements, is critical.

In each of these three challenges, local producers and catering firms face strong competition from commercial operations in neighbouring countries, particularly Zimbabwe and South Africa. Even sourcing from “local” companies does not guarantee local products.

A study of Benga mine (Sturman and Bello, 2014) found that although local food procurement accounted for 65 per cent of total food procurement, only one of the six “local” companies was local in the sense of Mozambican ownership and sourcing of food and it supplied just 1 per cent of procured vegetables. The other five suppliers were based in Tete but sourced their supplies from other provinces or countries. The catering firms serving the extractives sector tend to be international firms like IFS (International Facilitation Services) and Servco.

A number of initiatives are underway by government, extractive companies and others to develop small-scale producers to supply more local products where the physical resource is favourable, but these as yet have had limited impact. These initiatives are important but they also confront the basic challenge that commercial agriculture is poorly developed in Mozambique, particularly to achieve the large-scale, quality and repetitive deliveries required of catering businesses.

### iv. Industry response – training and developing SMEs

In connection with the hiring of national staff, most large extractives companies offer education and training initiatives to potential and actual employees, or more generally (see Table 5). This is often done in partnership with mid- and upper-level Mozambican technical, vocational and tertiary institutions, public and private. In addition, companies develop in-house training programs and/or send selected recruits or staff abroad for training; some 300 Mozambican degree holders in mathematics, physics, chemistry and engineering are currently taking degrees and petroleum-related courses out of the country, including in Italy, China, Malaysia, Brazil and Australia. At all levels of national staff, but particularly upper levels, there is significant mobility of staff, especially when demand is high (Aaboe and Kring, 2013).

In addition to attention to training and education, mining companies have initiatives to strengthen community and SME financial skills. The Kenmare Moma Development Association has supported a

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17 Such initiatives in Tete include Fazenda Mizimu, a 20 hectare farm at Cateme that supplies IFS and Servco, CB Farm Fresh a food distributor that supplies IFS and Servco, CB Farm Fresh a food distributor that established an out-grower development program to support local smallholder farmers in 2012, and Kurima Ne Povo Cubatsirana which with Rio Tinto support organized two projects for vegetable production and pig farming among 80 families.

18 Smart and Hanlon (2014:2) estimate there are 51,000 “small commercial farmers” in Mozambique (i.e., with 3-20 hectares and an annual farm income of MZN 17,000) and 17,000 “medium commercial farmers” (i.e., with 20-200 hectares and an annual farm income of MZN 40,000).

19 The education and training discussed here has the intention of developing stronger employees or at least a stronger pool from which to recruit; it is distinct from the support that mining companies provide to community or other schools in the area around their operation that is (along with health programs) a common CSR activity.
community savings and loan program that was used by savings groups to establish social funds for emergencies such as medical care, cover funeral costs, fix houses, purchase domestic utilities, and to start up small income generating activities such as grocery, domestic utility, clothes and fabric shops.

Table 5: Education and Training Activities Supported by Extractives Companies

<table>
<thead>
<tr>
<th>Company/Institution</th>
<th>Education</th>
<th>Training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rio Tinto</strong> (Sold to ICVL in 2013)</td>
<td>-</td>
<td>Vocational training centre in Tete. Aimed to train 33,000 people as mechanics, electricians, machine operators, etc.</td>
</tr>
<tr>
<td><strong>Vale</strong></td>
<td>Sends Mozambicans to study in Brazil in post-graduate courses for engineers and geologists in Mining, Railway and Port operational areas (30 participated in Mozambique). One person trained in Environmental Licensing in Mozambique.</td>
<td>Training for members of local communities who are not employees. In 2012/13 1,300 people received vocational training. Up to 2014, staff had received more than 200,000 hours of training and 1,033 apprentices had been trained. In 2012, 27 people were trained as drivers and 56 trained in maintenance of mining equipment.</td>
</tr>
<tr>
<td><strong>ENI</strong></td>
<td>‘Petroleum Sector Training Program’ expects to train 200 graduates from universities in Maputo, Pemba and Nampula between 2012 and 2016.</td>
<td>-</td>
</tr>
<tr>
<td><strong>Anadarko</strong></td>
<td>Support to engineering and geoscience education at Universidade Eduardo Mondlane (UEM). Sponsoring Petroleum Engineering MSc program in UEM from 2014. Infrastructure upgrades for the UEM engineering department.</td>
<td>Established a training centre in Palma district. Adult trainees from local communities receive training on health, safety and essential workplace skills. Trainees registered on a labour database. By December 2013 almost 400 trainees completed the program and aim for 1,000 by December 2014.</td>
</tr>
<tr>
<td><strong>Sasol</strong></td>
<td></td>
<td>Scholarships to 30 Mozambican students in engineering, sciences and marketing. Built technical college in production area.</td>
</tr>
</tbody>
</table>


v. Conclusion

Over almost thirty years of legislative evolution (1986-2014), Mozambique has shown its awareness of the potential economic and social impacts of the extractives industries sector. The 2014 mining and gas laws make it clear that extractives development must give priority to local content, local employment, local partners, and employment and training of Mozambicans. Along with other national requirements concerning employment, public procurement, corporate social responsibility, public private partnerships, investment law, public financial management and the like, such priorities could lead to a substantial positive impact of extractives on national development.

Of course, many challenges will emerge. One is that the mining and gas industries are market dependent, and benefits are not always assured. Another is that while mining and gas may produce significant employment in the development phase, numbers fall off and skill requirements increase during operation; it is salutary to recognize that the artisanal and small mining sector may presently employ six or seven times as many people as the formal mining sector.
Despite the cost, infrastructure and human resource challenges of operating in Mozambique, some extractives companies have made a significant effort to maximize local employment and procurement. Major western companies in particular have established local procurement programs, and made significant contributions to industry-relevant training and education.

They have also realized that sustainable local procurement depends on more than merely setting local content goals. In many cases, the basic technical and financial management skills of potential and even actual local suppliers constrain effective local supply; local content, employment and development goals are not likely to be maximised solely through legislation, especially with a poorly developed SME sector with few linkages to the rest of the economy and in particular to the finance sector. In the next section, we review salient features of the financial services sector to see how they might provide opportunities to improve financial inclusion in Mozambique by building on investments and economic activities associated with the extractives sector.
5. Financial Services Sector

The main features of Mozambique’s financial services sector are summarized in a number of studies, which appear to inform most of the current discussion on the sector.

The object of this section is not to repeat established aspects of the financial services sector; rather it is to focus on salient points related to the extractives sector. These points include:

- A highly profitable and spatially concentrated formal financial sector that (a) benefits from both the demands of the extractives sector and from government policy to maximize onshore handling of extractives transactions, and (b) has few incentives to expand service coverage to rural and distant locations and small scale businesses;
- A large number of informal financial institutions but which play a minimal role in delivering financial services;
- Limited development of services, such as mobile banking, that have accelerated access to finance and small business growth in Africa and elsewhere;
- Limited financial inclusion, low demand for financial services and low levels of financial literacy; and
- Absence of effective government policies to deepen access to finance by individuals and small companies.

In addition, it may be noted that the only government SME Development Strategy (Government of Mozambique, 2007) devoted more than one-third of its recommendations to SME financing. These included that banks should increase financing and other services for SMEs, and strengthen links with rural credit and micro-finance institutions. It was also recommended that government or others should finance credit guarantees and leasing programs to benefit SMEs, and study the financial services regime and the creation of financial services infrastructure. There has been no or limited progress on these recommendations.21

This section reviews aspects of the current financial services sector, particularly as they may suggest ways to improve financial inclusion by building on investments and economic activities associated with the extractives sector.

i. Banking sector

Five of the 18 traditional or commercial banks operating in Mozambique account for 85 per cent of a $9.9 billion banking asset base (Figure 5). The banking sector is characterized by high borrowing interest rates and high profitability.

Surveys of bank profitability by country regularly rank Mozambique among the most profitable. The profits of the six largest banks increased 29 per cent in 2014, with loans growing 27-31 per cent and

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21 Other financial sector recommendations were to refinance rural credit and micro credit institutions, and provide credit guarantees for basic industry, exports and high technology.
deposits 20 per cent (Macauhub, 2015). The financial services sector grew by 27 per cent a year on average in 2012-14, a rate outpaced only by the mining sector (Economist Intelligence Unit, 2015).

The formal banking sector is expanding rapidly. Between 2005 and 2013, the four largest banks increased assets three-fold, customer deposits four-fold, and loans and advances almost six-fold to $4.0 billion (Standard Bank, 2014:90). The number of commercial banks in Mozambique has increased from 12 in 2007 to 18 today (Bank of Mozambique, 2015c:3), with a nineteenth planning to open this year.22

Credit mainly goes to the consumer and trade sectors. During 2014, “other sectors” received 55 per cent of bank lending, trade 15 per cent and industry 12 per cent (KPMG, 2014). Agriculture, the sector in which the majority of the population works, received 3 per cent of total lending in 2014, with loans to the sector falling 10 per cent from the previous year. Lending interest rates in the agriculture sector are around 20 per cent for maturities of 12 months.

SMEs as defined in government policy receive limited support from banks. While bank lending for medium sized firms is not uncommon, micro and small enterprises rarely receive credit even if they apply for it, which few do. The main reasons for this is that smaller firms are challenged to meet bank documentation requirements such as company registration and financial records; banks do not relax such requirements for small loans or clients.

Few banks appear to prioritize support for SMEs. Apart from Moza Banco and the Bank of Commerce and Industry (BCI), no major bank is trying to develop a borrowing clientele among entrepreneurs or SMEs aside from the “medium” enterprise level. Smaller firms are often practically excluded from borrowing by SME borrowing rates of between 16 per cent and 36 per cent (Miamidian, 2014:6) and

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22 The Angola-based Banco Privado Atlântico is planning to invest in Mozambique through its Portuguese subsidiary, focusing on corporate, investment and private banking services; there are about 900 high-net-worth individuals in Mozambique (i.e., people with investable assets of over $1 million), a number growing at 8 per cent per year (Economist Intelligence Unit, 2015) and predicted to be 2,200 by 2024 (Bloomberg Business, 2015).
loan terms and conditions. Where bank programs attempt to prioritize SMEs for lending, they often try to do so through community based organizations like the Association of Young Entrepreneurs (ANJE)\(^{23}\) and the Association of Informal Sector Operators and Workers (ASSOTSI)\(^{24}\) in order to strengthen the Know Your Customer (KYC) factor and so limit risk. Flexible lending or other financial products are not offered to SMEs.

Numerous lines of credit aimed at “SMEs” have been established in recent years, primarily financed by international donors (Table 6). Some do disburse but generally to medium sized firms or to firms larger than government defined SMEs. Most require the same standards of documentation, collateral and risk from SMEs as they would for any lending, even though commissions for handling lines of credit should compensate additional management cost and risk\(^{25}\). In some cases, banks claim that the requirements of line of credit donors are more stringent than their own, for example concerning environmental assessments. A forthcoming study commissioned by FSDMoç with the status updtting the status on lines of credits and guarantee funds will be available before end of 2015 which will provide additional information on the impact on SME Finance.

Whatever may be the constraints on demand or supply for SME credit, or in the provision of other financial services to SMEs, the bottom line is that there is little incentive for banks to serve that market. Bank profits can be close to 30 per cent annually when not serving SMEs, and without a policy imperative to do otherwise, there is no obvious reason for them to get into the risky and challenging area of supporting micro and small enterprises.

In sum, and with reference to the goal of catalysing financial inclusion linked to the investments and economic opportunities associated with the extractives sector, relevant features of the commercial banking sector in Mozambique include:

- A fast growing, foreign owned sector that can be highly profitable;
- Assets and activities that are dominated by a small number of banks;
- A sector focused on urban areas and on salaried, government and large business clients;
- A sector that has minimal involvement with SMEs or the unbanked for operational, risk and profitability reasons; and
- An absence of government or share-holder driven policy or regulatory requirements that drive financial inclusion, including making finance and financial products available to SMEs.

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\(^{23}\) ANJE provides support and training to SMEs with founders between 21 and 35 years old. Clients are mainly micro companies in Maputo but ANJE also has presence in Tete, Nampula and Pemba. ANJE has a BCI credit line under which they support and train SMEs; BCI makes lending decisions.

\(^{24}\) Moza Banco is investing $1 million in ten low-cost branches dedicated to the informal sector. Six will be in Maputo, two in Beira and two in Nampula; four are established and have reached their customer target of 500 in ten weeks, and six are planned for 2015. The program is based on an agreement between Moza Banco and ASSOTSI. The low-cost branches offer current and savings accounts, debit/credit cards, short-term loans and accounts in MZN and USD. Services offered include deposits, withdrawals, foreign exchange purchase, domestic bank transfers and loans. Each branch is staffed by two individuals and is open standard hours. Loans are only available to ASSOTSI members who can present a reference from ASSOTSI and a simplified tax return. Loans are to a maximum of one-third of the annual business turnover shown in the tax return, to a maximum loan of MZN 100,000.

\(^{25}\) Many guarantee programs are under-utilized for similar reasons.
### Table 6: Lines of Credits for SMEs, 2014-2015

<table>
<thead>
<tr>
<th>Bank/Lending Institution</th>
<th>Funder</th>
<th>Start</th>
<th>Amount</th>
<th>Target Market</th>
<th>Sector, Focus</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funder: BCI, Moza Banco, Banco Opportunidade Millennium BIM</td>
<td>KfW</td>
<td>Dec 2014</td>
<td>€18 million</td>
<td>SMEs</td>
<td>Esp. renewable energy; includes technical assistance</td>
<td></td>
</tr>
<tr>
<td>Funder: BCI</td>
<td></td>
<td>Nov 2014</td>
<td>N.A.</td>
<td>Young entrepreneurs</td>
<td>All sectors</td>
<td>ANIE provides technical asst.</td>
</tr>
<tr>
<td>Funder: Millennium BIM, BCI, Banco Único, Moza Banco</td>
<td>JICA</td>
<td>2014</td>
<td>$13 million</td>
<td>SMEs</td>
<td>All sectors</td>
<td></td>
</tr>
<tr>
<td>Funder: Moza Banco, BCI, BIM, Banco Único</td>
<td>Portuguese Cooperation Business Fund</td>
<td>Oct 2014</td>
<td>€10.6 million</td>
<td>SMEs linked to Portuguese partners</td>
<td>All sectors</td>
<td>Up to 33 per cent to SMEs.</td>
</tr>
<tr>
<td>Funder: N.A.</td>
<td>DFID</td>
<td>Feb 2014</td>
<td>$20 million</td>
<td>Rural financial services, esp. agr. and trade</td>
<td>Poverty reduction and sustainable resource mgt.</td>
<td></td>
</tr>
<tr>
<td>Funder: Banc ABC</td>
<td>AfDB</td>
<td>Mar 2015</td>
<td>€50 million</td>
<td>SMEs in Zimbabwe, Botswana and Mozambique</td>
<td>All sectors</td>
<td>AFD guarantees 50 per cent of Banc ABC SME loans. Loans: are MZN 0.4 - 12.0.</td>
</tr>
<tr>
<td>Funder: Banc ABC</td>
<td>AFD</td>
<td>Mar 2015</td>
<td>€2 million</td>
<td>SMEs</td>
<td>All sectors</td>
<td></td>
</tr>
<tr>
<td>Funder: BCI</td>
<td>BCI</td>
<td>Jan 2015</td>
<td>MZN 50 million</td>
<td>Women-led SMEs and women</td>
<td>All sectors</td>
<td></td>
</tr>
<tr>
<td>Funder: BCI</td>
<td>BCI</td>
<td>Jun 2014</td>
<td>MZN 5,000 million</td>
<td>CTA members</td>
<td>All sectors</td>
<td></td>
</tr>
<tr>
<td>Funder: BCI</td>
<td>BCI</td>
<td>May 2014</td>
<td>MZN 5,000 million</td>
<td>SMEs</td>
<td>Women and SMEs linked to megaprojects and agribusiness</td>
<td></td>
</tr>
<tr>
<td>Funder: Moza Banco</td>
<td>African Guarantee Fund (AfDB)</td>
<td>Dec 2014</td>
<td>$2.5 million</td>
<td>SMEs</td>
<td>All sectors</td>
<td>Loans come with technical assistance.</td>
</tr>
<tr>
<td>Funder: Moza Banco</td>
<td>AfDB</td>
<td>Nov 2014</td>
<td>$9 million</td>
<td>SMEs</td>
<td>Esp. agriculture, services, tourism, light industry.</td>
<td></td>
</tr>
<tr>
<td>Funder: Moza Banco</td>
<td>Moza Banco</td>
<td>Apr 2014</td>
<td>N.A.</td>
<td>SMEs</td>
<td>All</td>
<td>In partnership with IPEME.</td>
</tr>
<tr>
<td>Funder: Moza Banco</td>
<td>European Investment Bank and Moza Banco</td>
<td>Mar 2014</td>
<td>€5 million each</td>
<td>SMEs</td>
<td>Esp. agriculture, industry, transport, tourism, health, education.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank and media reports.

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ii. Microfinance sector

The microfinance sector has over 300 institutions though not all are active (Bank of Mozambique, 2015c:3). There are also two commercial banks that target the microfinance sector (Socremo and Oportunidade). According to the Bank of Mozambique, microfinance institutions (MFIs) include ten micro banks, eight credit cooperatives, 12 savings and loans organizations and 285 micro credit operators, which include cooperatives and community based organisations such as rural finance associations and Accumulative Savings and Credit Associations (ASCAs, known in Mozambique as rotating savings and credit groups) (ICC, 2012; Hunguana, et al., 2012).

Like the traditional banking sector, the microfinance sector is concentrated in a few institutions. The four commercial banks active in the sector in 2012 accounted for 72 per cent of the microfinance loan portfolio although they had only 23 per cent of active borrowers (ICC, 2012). The dominant MFIs make larger loans to fewer clients. The institutions that focus on the lower end of the market serve the majority of the clients (ASCA accounts for 46 per cent of active clients (ICC, 2012)).

MFIs have not had a significant impact on providing credit to their assumed clientele: only 0.5 per cent of people living on less than US$2 a day were active borrowers during 2011 (MF Transparency, 2012:20). They mainly serve SMEs and focus on lending to consumers and traders; they have little outreach to the productive sectors including agriculture (Miamidian, 2014:8; ICC, 2012:66; de Vletter et al., 2009:20). In addition, MFIs have low geographic coverage, tending to be concentrated in the south (ICC, 2012). However, the number of rural-based MFIs has grown recently due to subsidization from the government Rural Finance Support Program.

<table>
<thead>
<tr>
<th>Provider</th>
<th>Loan Purpose</th>
<th>Loan Size</th>
<th>Term (Months)</th>
<th>Interest (Monthly)</th>
<th>Documents Required</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks (4)</td>
<td>SMEs</td>
<td>up to 10% bank capital MZN 100,000 – 10% bank capital</td>
<td>24-60</td>
<td>2.7-6%</td>
<td>ID, passport, driving license, election card. Business registration and plan, collateral, one year’s operation, bank account, financial records.</td>
<td>9/11 provinces</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td>MZN 5,000-5,000,000 MZN 5,000-350,000,000 MZN 5,000-350,000</td>
<td>&lt;36</td>
<td>2.7-5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Microenterprise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fishery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Microbanks (8)</td>
<td>Consumer Business</td>
<td>MZN 1,500 – 500,000 MZN 1,500 – 50,000</td>
<td>&lt;60</td>
<td>2.5-3%</td>
<td>N.A.</td>
<td>6/11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt;12</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Cooperatives (7)</td>
<td>Agriculture Business</td>
<td>MZN 20,000-150,000 MZN 3,500-150,000</td>
<td>2-12</td>
<td>4%</td>
<td>N.A.</td>
<td>5/11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-18</td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Microcredit Operators (166)</td>
<td>Microenterprise</td>
<td>MZN 500-350,000 MZN 5,000-250,000 MZN 12,610-250,000</td>
<td>1-60</td>
<td>2-10%</td>
<td>N.A.</td>
<td>All, 70% in Maputo Prov./ city</td>
</tr>
<tr>
<td></td>
<td>Consumer Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Finance Associations (4)</td>
<td>Business</td>
<td>MZN 10,000 – 600,000 MZN 10,000 – 50,000 MZN 6,000-50,000</td>
<td>3-12</td>
<td>2.5-4.5%</td>
<td>N.A.</td>
<td>3/11</td>
</tr>
<tr>
<td></td>
<td>Agriculture Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4-9</td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12</td>
<td>4.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


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27 Two other banks that dealt with microfinance have moved out of the sector in the past year: Procredito was bought by EcoBank and Tchuma became Banco Mais. Neither EcoBank nor Banco Mais prioritize microfinance.
Overall, the microfinance industry suffers from poor management and low volumes mainly due to high interest rates (de Vletter et al., 2015), which average around 40 per cent annually and can exceed 100 per cent. MFIs generally struggle with financial sustainability, dependency on donors, high costs, low human resources, and the lack of a credit bureau and information and management systems. Table 7 summarizes features of MFI lending activities.

Aspects of MFIs relevant to this study include:

- While there are over 200 MFIs, the four banks in the sector until this year accounted for about three-quarters of MFI loans and one-quarter of their active borrowers;
- The poor (living on less than $2/day) have essentially no access (0.5 per cent) to MFIs;
- The main clients of MFIs are SMEs and individuals seeking trade finance or consumer loans; and
- MFIs struggle with financial sustainability, dependency on donors, high costs, poorly trained staff, and the lack of a credit bureau and information and management systems.

iii. Access to finance

The majority of clients of the financial services sector are urban dwellers and large firms. Some 80 per cent of the national population and 75 per cent of SMEs are excluded from the formal banking sector (Bank of Mozambique, 2015c). Figures 6-8 show access to finance for consumers and SMEs broken down between national, rural and urban areas.

An estimated 60 per cent of the adult Mozambican population is excluded from both formal and informal financial services (Figure 6). Low bank penetration in rural areas means that the majority of people use informal financial services. As people who use banking services are more likely to use other financial services such as microfinance institutions, insurance companies, money changers and money lenders (World Bank 2014), the access gap between rural and urban populations using today’s institutions and technologies is likely to increase. At a national level, 75 per cent of SMEs are financially excluded (Figure 7). The majority of financially included firms rely on informal (organised groups) financial services. Most individual entrepreneurs and micro firms have no access to finance: the bigger the size of the firm, the more it is likely to be financially included (Figure 8).

In the 12 months prior to the FinScope MSME survey (ICC and FinMark Trust, 2012), only 5 per cent of SMEs had received a loan; 1 per cent had used a bank, 1 per cent had used formal non-bank services, 1 per cent had used informal services, and 2 per cent had borrowed from friends and family.

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28 “MSME” in this report is generally included in “SME.” MSME is used more in this section to reflect its usage in cited texts or to emphasize the predominance in numbers of micro firms.

29 Reported exclusion rates vary, in large part due to differences in definitions and weak data. The Bank of Mozambique’s 76 per cent rate is derived from its figure that 24 per cent of the adult population has a bank account. The FinScope 2014 Consumer survey (de Vletter et al., 2015) finds 20 per cent of the adult population use bank services, 4 per cent use other formal financial services, and 16 per cent use informal financial services – which means 60 per cent of adults are financially excluded. World Bank (2014) reports that only 36 per cent are excluded but this is defined in the sense of never having used a financial provider and appears to refer to adults rather than the total population.

30 Formal banking services include micro banks as well as anyone that has used a bank, e.g., transferring or receiving money although they are not clients. Other formal financial services cover a broad range of services – microfinance from non-bank providers such as associations, foundations, NGOs and projects, savings and credit cooperatives, insurance companies, pension funds, money transfer agencies and government funds. Informal services have no recognized legal status.
Figure 6: Consumer Access to Finance

<table>
<thead>
<tr>
<th></th>
<th>Banked</th>
<th>Formal Other</th>
<th>Informal Only</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>20%</td>
<td>4%</td>
<td>16%</td>
<td>60%</td>
</tr>
<tr>
<td>Urban</td>
<td>40%</td>
<td>4%</td>
<td>13%</td>
<td>43%</td>
</tr>
<tr>
<td>Rural</td>
<td>10%</td>
<td>3%</td>
<td>18%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Source: ICC and FinMark Trust (2012).

Figure 7: SME Access to Finance

<table>
<thead>
<tr>
<th></th>
<th>Banked</th>
<th>Formal Other</th>
<th>Informal Only</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>9%</td>
<td>2%</td>
<td>14%</td>
<td>75%</td>
</tr>
<tr>
<td>Urban</td>
<td>24%</td>
<td>1%</td>
<td>36%</td>
<td>39%</td>
</tr>
<tr>
<td>Rural</td>
<td>7%</td>
<td>2%</td>
<td>11%</td>
<td>80%</td>
</tr>
</tbody>
</table>


Figure 8: Access to Finance by Business Size

<table>
<thead>
<tr>
<th></th>
<th>Individual Entrepreneurs</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banked</td>
<td>Formal Other</td>
<td>Informal Only</td>
<td>Excluded</td>
</tr>
<tr>
<td></td>
<td>77%</td>
<td>10%</td>
<td>27%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
<td>6%</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>2%</td>
<td>14%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: ICC and FinMark Trust (2012).
In terms of individual adults the 2014 FinScope Consumer survey (de Vletter et al., 2015) found that 6 per cent had used credit/loan products/services (5 per cent from banks and 1 per cent from formal non-bank institutions), which is up from 2 per cent reported in 2009 (de Vletter et al., 2015).

Access to finance is readily summarized as:

- Urban populations and medium size and larger firms are most likely to be served by the financial system, though even the coverage of urban populations and individual entrepreneurs (and smaller firms) is far from complete;
- Access to bank services has increased significantly in the past five years but it is still very low;
- About three-quarters of the national population and SMEs is without access to financial services; and
- Access is weakest in northern provinces and rural areas.

iv. Infrastructure and location

Banking infrastructure is concentrated in the capital Maputo and to a lesser extent, other provincial capitals. As of 2014, there are 572 bank branches in Mozambique (Bank of Mozambique, 2015c:4) but only 12 per cent of these were outside main cities (Standard Bank, 2014: 90-91). Three years ago, 47 per cent of bank branches, 63 per cent of point-of-sale and 36 per cent of automated teller machines (ATMs) were in Maputo (Dias et al., 2012:11): in 2014, 35 per cent of bank branches are in Maputo (Bank of Mozambique, 2015c). While there has been growth and dispersion of banking facilities since then, it is unlikely that the urban and southern locational bias has changed significantly.

Rural populations are under-served by bank infrastructure (Figure 9). About half of the country’s 158 districts are without bank branches.31 There are 4.2 bank branches per 100,000 adults in urban areas compared with 0.6 in rural areas (World Bank, 2014:15). The dispersal of financial service providers is apparent in Figure 9.

The banking sector in Mozambique is driven by “brick and mortar” presence – which is one reason why the sector has made so far a modest impact on financial sector deepening. This is likely to change with the recent enabling of the appointment of bank agents (Bank of Mozambique, 2015b). Agent banking allows the use of retail and postal outlets or individual agents (including mobile money agents) to carry out basic financial services such as payment of bills, deposits, or withdrawal of money, on behalf of a bank. Agents have lower installation and running costs than a bank branch so are able to expand to serve clients without needing a physical bank branch presence. Government has recently approved the legislation for it (Bank of Mozambique, 2015b). Moza Banco is launching a pilot of three different agent network strategies (Adel Sofala et al., 2015).

Mobile money and electronic banking operations have blossomed across Africa in the past decade. In Kenya, M-PESA had 60 per cent of the adult population conducting annual transactions worth 10 per cent of GDP two years after its inception in 2007 (Vicente, 2013: 4). Moreover, M-PESA has been shown to facilitate trade, provide a safe storage mechanism, increase net household savings, improve the allocation of savings across households and businesses, and affect the ability of individuals to share risk and to make more efficient investment decisions (op. cit.: 5).

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31 The government launched a strategy in 2007 to extend banking services to poorer and more remote areas. Given that such coverage needs to be aligned with improvements in road, electricity and telecoms coverage, it is to be expected that it has progressed gradually. However, the Bank of Mozambique recently issued an instruction that banks expanding the number of agencies have to locate up to one in three such agencies in one of 79 listed localities (33 in three northern provinces, 37 in four central provinces and nine in two southern provinces) (Bank of Mozambique, 2015a).
“Mobile money” services are linked to telecom companies that allow the transfer of funds via mobile phone numbers. Mobile money allows funds to be transferred to individuals or businesses via authorized agents. “Electronic banking” services enable access to one’s bank account by ATM, internet or, increasingly, mobile phone. Mobile money has seen the greatest growth as it does not require a bank account; its use has gone from individual transfers to relatives to payments for goods by individuals and companies (including, for example, payments of purchases by agri-processors from small-holders) to payments of salaries. A next step in digital financial services is suggested by M-Shwari in Kenya (launched in 2012), which is a bank account offering savings and loans accessed through M-PESA created by Safaricom and the Commercial Bank of Africa.

Figure 9: Location of Financial Service Providers

Given that 60 per cent of Mozambicans do not have access to financial services and the significant growth of mobile phone coverage and ownership (from 1.7 million mobiles in 2005 to 15.5 million in Q4, 2014), the market for mobile money is ripe, even allowing for widespread poverty. Indeed, of the population earning less than $2.50 per day, 14 per cent had a bank account but 42 per cent had a mobile phone, a figure that is similar to the national phone ownership figure (infoDev, 2014: 4-5).

Mobile banking clients can benefit from free and simple registration, low costs (no monthly fees or minimum balance required), easy access (branchless, with no need to have a bank account), and fast and safe service. However, mobile money has not yet had a significant impact in Mozambique. A reason for this is that there was disquiet in the financial sector over the regulation and security of phone-based payment systems; it took time to develop acceptable regulation. In addition, government focused on making all state payments via the banking system, a process that is not yet complete; it has required significant systems change and stronger government/bank interface. Another reason is that while mobile services exist, they are yet to move beyond small personal transfers.
The two largest mobile phone companies have mobile money services, mCel since 2010 with mKesh and Vodacom since 2013 with M-PESA. The network with the broadest rural coverage (Movitel) does not have a mobile money service.

mKesh and M-PESA clients can open accounts from which they can send and receive money as well as pay for services like purchase of phone credit and electricity supply. Clients can carry out transactions by phone, interacting with agents as needed. Transactions can range from MZN 50 to MZN 25,000 for a fee of MZN 10 to MZN 50. These services began as being largely city-based. More than half of mKesh’s 2,728 agents are in Maputo, 526 are in Sofala and 234 in Nampula, with the other seven provinces having between 4 and 70 agents each (Hunguana, et al., 2012: 39).

Mobile money is not yet used widely in Mozambique. Only 3.5 per cent of mobile phone users have a mobile money account (2 per cent with mKesh and 1.7 per cent with MPesa), although 20.9 per cent of adults are aware of mobile money operators (de Vletter et al., 2015). By 2015 M-PESA had about 260,000 active users, one million total subscriptions, 5,000 active agents country wide and $20 million had been transferred in June 2015 (Adel Sofala et al., 2015). Latest figures for mKesh show 157,000 users in November 2013 (infoDev, 2014: 5). Currently, most people use mobile money to buy air time (71.9 per cent) with 30.7 per cent using it to pay utility services while 25.3 per cent of users use it to make transfers and 19.4 per cent use it to deposit cash (de Vletter et al., 2015).

While banks have long focused on improving electronic banking, they have recently turned to providing mobile money type services for their account holders. Two have also recently launched “mobile money” services: BCI has Tako Movel and FNB, Manda Mola. These services allow bank clients to send money from their account through ATMs to beneficiaries even if the recipient does not have a bank account. Other banks are introducing smart phones apps that allow such transactions.

Mobile money is not an alternative to banking. But, it has advantages where banking infrastructure is not present, small amounts of money are transferred, and setting up accounts only for payments is not worthwhile to bank or client. It is also a sound introduction to financial literacy and record-keeping.

The main challenges for mobile money operators include recruiting experienced personnel, and handling significant start up and advertising costs. In addition, potential clients and agents, particularly in remote areas, are affected by limited electricity to charge phones and security concerns. While these challenges are being addressed, it is critical for government, the banking sector, telecom operators and current and potential system users to develop agreement and regulations on how mobile banking can fulfil its potential in reducing country’s financial inclusion gap. One way to do so would be to allow payees of government or private business the option of having payments made by mobile money.

Four points concerning bank infrastructure relevant to this study are:

- Rural populations have minimal access to banking services;
- Electronic banking improvements are welcome but the limited coverage of banks and the small number of people with bank accounts restrict their impact on financial inclusion;
- Bank agents, recently permitted by recent legislation, could expand the reach of banks; and
- Mobile money is well suited to individuals without bank accounts, yet its potential use is far from achieved in Mozambique.

While there are challenges for banks to serve effectively poor and distant customers – and no two countries are readily comparable in banking terms – it is possible for a bank to do this. As Equity Bank suggests (Box 1), this requires a re-orientation of priorities from those common to the banking sector.
Box 1: Equity Bank – A Financial Sector Deeping Success

Equity Bank is a profitable commercial bank that has significantly increased the financial inclusion of the low income and unbanked. It is based in Kenya but has expanded to South Sudan, Uganda, Tanzania and Rwanda. The bank targets the ‘bottom of the pyramid’ by offering products of interest to low income customers, such as:

- No minimal opening and operating balances;
- Low or no monthly account fees;
- Easy access to account liquidity;
- Access to bank services that is low-cost in terms of time involved and transport; and
- An agent-banking model that allows all customers to easily access financial services.

With over 10 million customers, Equity Bank is the largest bank in Africa by customer base (Equity Bank Group, 2015). In 2014 it had a return on equity of 28 per cent and 5.1 per cent return on assets despite massive investment in the IT platform, core banking platform, mobile and internet banking services and branch network to support SME growth (Equity Group Holdings Limited, 2014).

With regulatory support from the Central Bank of Kenya, in 2010 Equity Bank embarked on an agent-banking business model based on mobile phone and point-of-sale (POS) technology. An “Equity Agent” is a commercial entity contracted by Equity Bank to offer products and services on behalf of the bank at his/her outlet, must be approved by the Central Bank of Kenya, and is equipped with the skills to provide basic banking services according to the bank’s standards.

The agent banking model is a key factor that has contributed to Equity Bank’s success. As detailed by Venkata and Mishra (2013), the direct management of agents is handled by the bank’s own dedicated department rather than the use of a third party agent network management company. Every activity necessary for agent management — recruitment; training; branding; marketing; liquidity management; operations support and monitoring — is therefore run through the bank’s branches with high level support from the head office and a centralised contact centre. Branches have specialised Agency Supervisors who manage agency business. Using POS and mobile phone technology, Equity Bank has simplified the process for opening a bank account, as well as ensuring that accounts opened by agent banking are on the core banking system so allowing customers access to their accounts at branches as well or vice versa. Customers also get debit cards. Equity Bank also has a dedicated customer contact centre and takes account of feedback.

Equity Bank teamed up with Airtel in 2014 to launch Equitel, a mobile payment and banking platform, so opening up competition in the mobile money market in Kenya. In March 2015, 81% of its 650,000 subscribers had mobile banking and they had made 4.5 million transactions (Equity Group Holdings Limited, 2015). During 2015, the number of transactions through Equitel has since gone on to exceed the number of transactions through agent banking by more than double in August 2015 (Equity Group Holdings Ltd, 2015).

Other features of the Equity Bank business model are:

- Close cooperation with the Central Bank of Kenya to resolve access issues, especially for the poor;
- Only 20 per cent of customer transactions take place in “brick and mortar” bank agencies (agents account for 56 per cent and mobile banking for 24 per cent);
- 54 per cent of customers are women, 3.5 million women have been trained in financial literacy, 25,000 women are enrolled in a three-year entrepreneurship program, and nine products have been developed specifically for women; and
- Local branches are staffed by employees largely from the local area, and local branches can develop products suited to local demand and markets.

Sources: As indicated and interventions by James Mwangi, Managing Director and CEO of Equity Bank, at the 2015 Alliance for Financial Inclusion Global Policy Forum, 3 September 2015.
v. Policies and programs to Enhance Financial Inclusion

Over the past decade in particular, the Government of Mozambique and development donors have made a variety of efforts to improve financial inclusion (Table 8). These efforts followed the earlier focus of establishing the soundness of the financial system itself following its remarkable collapse around 2000 due in part to poor supervisory practices. They predate the related prioritization of the development of SOEs and more recently the promotion of local content, particularly in connection with the extractives sector.

The Financial Sector Development Strategy 2013-2022, FSDS (Government of Mozambique, 2013) provides the government’s framework for sector growth. It aims to maintain financial stability, improve financial access and support inclusive growth, and increase the supply of long-term private capital to support development.

The FSDS 2013-2022 is the framework in which strategies, policies and programs to enhance financial sector deepening are being established. A key recent such initiative is the Financial Inclusion Strategy 2016 – 2022 (Bank of Mozambique, 2015c), which focuses on three areas, as follows:

- **Access to and use of financial services** includes actions to expand and diversify the network of financial service access points, improve the legal and regulatory framework for the expansion of financial products and services, develop a range of products for MSMEs, the low income population and farmers, and increase the level of information on financial inclusion.

- **Strengthening financial infrastructure** entails actions to improve the infrastructure for the National Payment System and the expansion of credit.

- **Consumer protection and financial literacy** is seen as covering the legal, regulatory and supervision framework for financial consumer protection, public information dissemination and financial knowledge of the population. Several of the policies below are actions in this strategy.

In addition to the Financial Inclusion Strategy itself (Bank of Mozambique, 2015c), three key FSDS-related initiatives taken in 2015 are:

- A directive on bank branch expansion to less served areas (Bank of Mozambique, 2015a);
- The creation of agent banking (Bank of Mozambique, 2015b); and
- Establishment of private credit bureaus.

The FSDS could be key to the modernization of the national financial services system, including ensuring broad and sustainable financial access and that the economic opportunities related to the extractives sector help facilitate financial sector deepening. Comparing the 2009 and 2014 FinScope data (de Vletter et al., 2015; de Vletter et al., 2009), there are signs that banks have started to make progress in deepening their coverage of the population. However, key to achieving these two outcomes will be a realistic assessment of the incentives that drive the policies and practices of the banking sector, and the willingness and ability of involved parties to develop financial tools, products and processes that address the reality and priorities of the vast non-institutional, non-wealthy potential customers of the financial system.
Table 8: Selected National Financial Sector Policies Affecting Financial Inclusion

<table>
<thead>
<tr>
<th>Strategy/Policy/Program</th>
<th>Financing</th>
<th>Objectives/Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Sector Technical Assistance Program (FSTAP), 2003-2010</td>
<td>GoM, World Bank, IMF, AfDB, DFID, SIDA, GIZ/KFW</td>
<td>Program with nine components: strengthening of the banking sector, improving financial accountability and transparency, strengthening public debt management, improving money and debt markets and financial infrastructure, enhancing micro and rural finance, strengthening the insurance and supplementary pension systems, strengthening the social security system, improving the legal and judicial environment for financial transactions and supporting anti-money laundering efforts. Implementation led by Ministry of Finance.</td>
</tr>
<tr>
<td>Rural Finance Support Program (RFSP) 2005 - 2013</td>
<td>GoM, IFAD, AfDB</td>
<td>Targets reducing poverty, improving rural livelihoods and enhancing the viability of rural enterprises through strengthening financial policy and institutions, promotion of innovation and outreach by financial institutions, supporting community financial institutions (ASCAs), working with MFIs, and providing matching grants and subsidized credit for rural areas. Implemented by Economic Support and Rehabilitation Fund (FARE) of the Ministry of Planning and Development.</td>
</tr>
<tr>
<td>Building Inclusive Finance in Mozambique (BIFSMO), 2007</td>
<td>GoM, UNDP, UN Capital Development Fund (UNCDF)</td>
<td>Promote access to financial services for the poor, focus on rural poor, develop a microfinance strategy, build the capacity of trainers and support service innovation. Implemented by the National Department for the Promotion of Rural Development (DNPDR) in the Ministry of Planning and Development.</td>
</tr>
<tr>
<td>Savings Promotion Campaign, 2011</td>
<td>GoM</td>
<td>Increase savings, particularly at district level, by increasing public knowledge, providing legislative incentives for producer associations, developing ASCAs, and expanding financial institutions.</td>
</tr>
<tr>
<td>Rural Finance Strategy, 2010-2015</td>
<td>GoM</td>
<td>Expand credit access for rural individuals, groups and MSMEs, especially women and the poor; support for ASCAs, and creation of networks of credit cooperatives along value chains.</td>
</tr>
<tr>
<td>BIFSMO II, 2012-2015</td>
<td>GoM, UNDP, UNCDF</td>
<td>National Rural Finance Strategy, micro-insurance diagnostic, microfinance sector mapping, Association of Mozambican Microfinance Institutions (AMOMIF) and financial service providers trained to implement the inclusive finance approaches, support MFIs on introduction of new products, inclusive finance strategy under DNPDR, and financial education strategy.</td>
</tr>
<tr>
<td>Financial Inclusion Strategy, 2016-2022</td>
<td>GoM</td>
<td>Improve access to and use of financial services, strengthen financial infrastructure, and promote consumer protection and financial literacy. Implemented under Bank of Mozambique.</td>
</tr>
</tbody>
</table>

Source: Field observation.
vi. Conclusion

This study aims to identify ways in which financial inclusion in Mozambique might be deepened by building on the investments and economic opportunities associated with the extractives sector. An important element in doing so is to understand the state of financial inclusion and the reasons for that situation. From the above analysis and key studies, the following are relevant conclusions:

- **Financial inclusion is extremely low**, particularly so in rural and remote areas, and among micro and small enterprises and poorer people;

- **Low financial inclusion is a critical constraint** to participation in cash-based economic activity;

- **Demand for financial inclusion** is affected by poverty, limited general and financial literacy, an absence of suitable inclusion incentives and tools and (consequently) limited demand for financial services, whether available or otherwise;

- **Supply-side constraints to financial inclusion** include financial institutions (banks, MFIs and others) offering few relevant and manageable products to financially excluded individuals or businesses, the absence of financial physical infrastructure in areas of greatest exclusion, limited empathy of financial institution staff and procedures with the needs of excluded businesses or individuals;

- **Mobile money services**, especially where they extend beyond person-to-person remittances, can counter demand and supply side constraints to financial inclusion, and with appropriate support from the telecom and financial services sectors, government and industry can be the basis of improved financial skills and the optimization of Mozambican involvement in extractive-related economic opportunities;

- **Government is prioritizing financial inclusion**, particularly through a Financial Sector Development Strategy (2011-2020) and a Financial Inclusion Strategy (2016-2022); and

- **Realistic assessment of the incentives that drive the policies and practices of the banking sector**, and the willingness and ability of involved parties to develop financial tools, products and processes that address the reality and priorities of the vast non-institutional, non-wealthy potential customers of the financial system will be key to ensuring broad and sustainable financial access and the modernization of the national financial services system.
6. Stakeholder Perspectives

Taking advantage of the economic activity generated by the extractives sector to improve financial inclusion is a useful strategic approach but financial inclusion should not be seen as an end in itself. It is valuable to the extent that it deepens Mozambican involvement in economic activity and increases the sustainability of poor households and businesses that become included in the financial services sector. To help ensure that improved financial inclusion and greater involvement of the financially included in economic activity go hand-in-hand, it is useful to review the priorities of the main stakeholders in financial inclusion and economic activity associated with the extractives sector.

i. Stakeholder interests

The four main stakeholders in financial inclusion, particularly those related to the extractives sector, are shown in Table 9. These stakeholders could be increased in number by adding individuals, micro-finance institutions, large Mozambican firms (and separate presentation of micro, small and medium enterprises), Bank of Mozambique and so on. However, the four are adequate to demonstrate the different priorities they have with respect to business activities related to the mining and gas industries. Equally, the 25 priorities identified are representative of the concerns noted by the stakeholder representatives in meetings with the study team. The obvious point demonstrated by Table 9:

<table>
<thead>
<tr>
<th>Priority</th>
<th>Banks</th>
<th>SMEs</th>
<th>Extractives Firms, Direct Contractors</th>
<th>GoM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Quality of Goods/Service</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Reliability of Supply</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Volume of Supply</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>International OHS/Environmental Standards</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Professional Invoice</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Winning Contracts</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Timely Payment (of loan or for service/goods)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Access to Finance (SMEs)</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Electronic Banking</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Mobile Money Services</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Financial Products Appropriate for SMEs</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Lines of Credit for SMEs</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Working Capital</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Reduce Red Tape, Better Banking Access</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Formal Company Status</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Financial and Management Skills</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Credit History</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Collateral Access</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Guarantee (of Payment)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Operating Experience</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Local Employment</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Local Procurement</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Training and Skills Development</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Financial Inclusion</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Quality Service for Large Business and Government</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Interviews and field observations.
the table is that there are few priorities shared by more than two stakeholders. The lack of congruence among shareholders on the core priority of financial inclusion, makes progress on strengthening inclusion and small business participation in economic opportunities challenging, though they do highlight areas to focus financial inclusion interventions.

These varied stakeholder priorities and issues are also shown in Annex 3 where an analysis of challenges in building on investments and economic opportunities in the extractives sector is made, from the perspective of the root cause, intervention and status for each stakeholder. Annex 4 takes the M4P analysis further by focusing at the micro, macro and meso and levels; again the outcome is to show the pervasiveness of poor access to finance as a constraint on economic activity, while also suggesting how many participants in the broad extractive industries value chain could also contribute to expanding financial inclusion. This is further demonstrated in Table 10 which presents the challenges to financial access.

### Table 10: Financial Access Challenges and Possible Responses

<table>
<thead>
<tr>
<th>Issue</th>
<th>Symptom</th>
<th>Cause</th>
<th>Possible response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited access to financial services by individuals potentially employable in extractive industries value chain</td>
<td>Many individuals employable as unskilled labor, including in SMEs, without bank accounts</td>
<td>• High levels of poverty and low levels of literacy</td>
<td>• Use mobile payment systems for all salary and other payments for people and businesses, unless they prefer bank service</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Absence of banks or other financial services, especially that serve poorer or smaller people or businesses</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limited experience with surplus funds or useful systems</td>
<td>• Encourage low-cost saving via banks and mobile money</td>
</tr>
<tr>
<td></td>
<td>Individuals and SMEs challenged to save, transfer or receive funds</td>
<td>• Unfamiliarity with formal payment and management systems</td>
<td>• Ensure all payments for people and businesses are fully documented</td>
</tr>
<tr>
<td></td>
<td>Limited awareness of financial management and records</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks not oriented to income levels or financial products not suited to many people and businesses in extractive industries value chain</td>
<td>Documentation and risk management requirements of banks have little compromise for small clients, including dedicated lines of credit and guarantees</td>
<td>• Concern with risk inherent with small, informal and untried clients in a situation of minimal collateral</td>
<td>• Use credit guarantees and lines of credit as intended to mitigate such risk</td>
</tr>
<tr>
<td></td>
<td>Few products aimed at smaller clients (e.g., flexible loans, simplified procedures)</td>
<td>• Concern with risk (above) • Stronger returns from other clients</td>
<td>• Mitigate risk with guarantees • Staff with knowledge and empathy of SMEs</td>
</tr>
<tr>
<td></td>
<td>Few bank staff focused on needs of small individual and business clients</td>
<td>• Lack of bank priority to these clients • Staff untrained in financial and cultural realities of these clients</td>
<td>• Clarify bank interest in small clients • Train staff and incentivize to grow business</td>
</tr>
<tr>
<td></td>
<td>Banking infrastructure and staff focused on high-rent areas and activities</td>
<td>• Better returns, lower costs and less risky than alternatives</td>
<td>• In addition to expanding branch coverage, prioritize bank links with mobile money systems</td>
</tr>
</tbody>
</table>

*Source: Interviews and field observations.*
Two obvious ways to improve financial inclusion are to increase the financial services available to individuals and businesses and to strengthen the business and financial management skills of SMEs. These two focuses are in practice related. The majority of SME owners are individual entrepreneurs (93 per cent) while micro businesses are around 7 per cent of business owners, small businesses are 0.7 per cent and medium sized businesses are 0.02 per cent (ICC and FinMark Trust, 2012). Nearly nine of ten of SME owners are based in rural areas, and overall they have low levels of education and largely work in the wholesale and retail trading sectors. Inevitably, many of the challenges faced by micro and small businesses that affect business growth and sustainability are similar to those faced by poorer individuals. Most micro and small businesses are:

- Financially excluded, using neither formal nor informal financial services or products;
- Without access to or demand for credit and other financial services, and with limited capacity to offer collateral;
- Informal, and so are not registered, lack documentation, and do not pay taxes;
- Unstructured, with poor financial management, accounting and business management skills;
- Exposed to key person risk;
- Survivalist rather than opportunistic;
- Without access to infrastructure like water, electricity, sanitation and transport;
- Unskilled in or unfocused on sales and marketing; and
- Based in informal premises, e.g., a residence, stall or table.

Irrespective of these constraints, a lot falls on the shoulders of SMEs. They are a key stage in the evolution of the national business environment, a source of training and entrepreneurial development, a focus of the push for deepened financial access, and a tool for maximizing employment and revenue benefits from the extractives sector.

The SMEs that are most likely to be able to meet the direct needs (see Figure 4) of the extractives sector are medium scale businesses as they, like larger firms, have had to establish management systems and a track record by virtue of their scale. They are also likely to use formal financial services, and have a demand for working capital and even investment capital. Just like medium sized enterprises have developed from smaller ones, some of them will evolve into large-scale enterprises. Moreover, while extractives companies generally support local content and procurement goals, they have limited time or priority on working with smaller suppliers who are likely to have limited familiarity with the business and supply basics of the organized sector.

ii. Policy opportunities

Considerable policy and legislative attention has been given to the extractives sector. This attention is aligned with national development plans like the current five-year plan (Government of Mozambique, 2015). It has generally been aimed at ensuring the economic, financial, social and environmental impact of the sector is positive for Mozambique and Mozambicans. Local content and employment, revenue streams and contributions to national and local employment, national ownership of contracted and other supplying firms, CSR guidelines and the development of downstream activities are just some of the topics covered in policy and regulation – of an industry that has yet to make a substantive return to investment. These concerns are appropriate from a national perspective, and balanced with the need to attract foreign direct investment into a sector that has no or minimal government investment.

There are similarities between the banking sector and the extractives sector in Mozambique. Both have grown significantly in the past decade and they are the two fastest growing sectors of the economy. Both are primarily foreign-owned. The sectors are inter-dependent – the extractives sector for basic financial services, and the financial sector for the income derived from these services.
However, while both sectors are closely monitored by government, it is for somewhat different reasons. The extractives sector is regulated primarily to ensure that its contribution to the national economy is maximized. Regulation and expectations of the industry cover local content, employment, training, partnerships with national firms, maximization of tax and other payments to government, and corporate social responsibility; occupational health and safety, environmental and social impacts including through resettlement, and foreign exchange operations are among areas of direction for the extractives sector that are covered by more general regulation.

The basis of financial regulation derives from the national banking crisis around 2000, and primarily aims to ensure the stability and sound supervision of the financial system. In recent years, regulation has also aspired to increase financial inclusion of both individuals and SMEs, though whether there are significant incentives for banks to do this is not yet apparent. Indeed, compared to the expectations of the extractives sector, there appears to be limited demand for the more profitable financial sector to contribute to the broad growth of the national economy.

iii. Conclusion

There is a wide range of stakeholders in financial inclusion and economic activity in the extractives sector, particularly from the perspectives of SMEs. However, these stakeholders share few priorities, which is challenging when attempting to increase financial inclusion or economic activity. In practice, there may be greater alignment of interests than at first appears. For example, increasing relevant financial services for individuals and businesses, and strengthening the business and financial management skills of SMEs, are related in terms of participants and tools. Moreover, both activities benefit from the lessons of medium size companies operating in the sector as they are likely to have overcome many of the financial and operational challenges confronting smaller firms. And, if the current focus on the financial services sector to broaden financial inclusion and better serve SMEs is sustained, it may be possible to better align the interests of all stakeholders in financial inclusion and economic activity in the extractives sector.
7. Conclusion – The Way Ahead

A resources-led economic boom is underway in Mozambique. Over the past decade, there has been a remarkable growth in the identification of mineral and hydrocarbon resources. Some of these resources – such as natural gas, mineral sands and coal are in production; others like graphite and additional, world-class gas reserves will come on stream shortly. Growth of the sector has not been easy given the resources’ locations and challenges in access and infrastructure provision, not to mention market conditions. But there has already been some positive impact from the extractives sector. Construction of mines, facilities and infrastructure has employed Mozambicans; transport of materials and goods has boomed; and the banking sector has grown at a rate second only to the resources sector. Extractives companies have invested in programs to train potential and actual employees, and developed and used local procurement networks.

However, many of the expected benefits of the sector are yet to be apparent notwithstanding the fact that government has developed a comprehensive legislative framework to maximize the benefits for long-term economic growth and social development, and to regulate the sector’s development.

Reasons for the slow practical and positive impact of resource development are varied. Resource development generally takes significant time and investment. The sector is capital intensive and high-skills based. Programs to maximize local employment and content in the industry depend heavily on the ability of the local economy to respond in a way suited to the industry’s needs for skilled workers and high volumes of quality goods and services. And as revenue flows to the treasury, political priorities and financial management systems should align to direct these to national and local development priorities.

Whatever the reasons, there is a belief among many stakeholders in Mozambique that more can and should be done to ensure the extractives sector contributes to two fundamental development challenges: employment generation and greater financial inclusion. This study has reviewed the situation of and challenges facing the extractives and the financial services sectors, particularly from the perspective of financial inclusion.

i. Opportunities to expand financial services to SMEs, individuals and rural households

The data on financial services available to SMEs, individuals and rural households that are driven by economic activities linked to the resource boom are clear. With few exceptions, micro and small enterprises and individuals and households in rural or other areas around extractives industries are barely served by the banking or microfinance sectors: they are largely financially excluded. This situation is due to a mix of weak demand for financial services and a failure of the institutions involved to develop products that meet the needs of the financially excluded. This supply/demand challenge affects even people in formal employment and companies operating commercially in that banking services are generally minimal or non-existent in areas of extractives activity.

Improving financial inclusion means increasing the number of individuals or businesses that have access to formal systems of payments, transfer and savings. It can also mean for those with only basic services to have access to another level of services, such as credit options suited to particular personal and business circumstances, guarantees for payments and loans, and access to equity. This second level of services will be largely bank-based and it is up to banks to develop such options suited to its range of clients.

Potential ways to expand financial services to SMEs, individuals and rural households, particularly those involved in the extractives industry sector, are:

(a) **Expand mobile money services.**

Review and act on the constraints and incentives of telecom companies to deliver and expand mobile money services.
Given the limited coverage of bank services in rural and remote areas and for individuals and companies that do not participate in the formal economy, this will fill a market that is not likely to be served by banks under their current goals, role, regulation and incentives.

(b) **Make payments only by bank deposit or mobile money.**

All payments made by enterprises in the extractives value chain should be carried out by bank deposit or mobile money.

(c) **Enhance mobile money systems.**

Mobile money systems should have savings and record-keeping options.

(d) **Implement the planned bank agent system.**

(e) **Banks should deliver phone-responsive electronic banking.**

Banks should continue to develop electronic banking options that are telephone responsive.

(f) **Bank fees and services should encourage smallest clients.**

Banks should develop fee rates and services that encourage the smallest savings activities, including availability with electronic banking access.

(g) **Mobile money operators and banks should contribute to a financial literacy training fund.**

Mobile money operators and banks should contribute to a training fund for financial literacy for individuals and businesses.

The Law for Professional Education, Law 25/2014 of 23 September, has created a National Training Fund for Professional Education funded by a payroll levy of up to 1 per cent. The regulation for this law could include the financial services sector, including mobile money operators, and the funds collected could be directed to financial literacy programs.

(h) **Maximize goods and services supplied by smaller firms.**

Contractors at all levels of the extractives value chain should maximize inputs from smaller firms that can meet quality and timeliness requirements.

This will require smaller firms to upgrade their financial management procedures and records while promoting the need for quality and timeliness in the provision of goods and services.

(i) **Ensure payment processes do not penalize suppliers.**

Contracting firms in the supply chain at all levels should adjust as needed their payment processes to ensure that they do not unduly penalize their suppliers.

Slow payment processes by larger firms are one of the most common complaints of suppliers, particularly of smaller firms. The extent to which such “slowness” is attributable to the purchaser or the supplier is unknown though it is assumed that some may be caused by payer processes, and an unfamiliarity with the constraints faced by firms that rely on self-financing or high institutional interest rates.

(j) **Banks should develop credit and other products attractive to SMEs in the extractives sector.**

Such products could include flexible loan terms to reflect payment realities, unsecured loans, use of SME lines of credit and guarantees to benefit small enterprises and tools for equity support of SMEs.
Developing such products will require specialist staff who are familiar with the operating environment of SMEs, committed to optimizing bank and SME incentives, and appreciate the potential interface of mobile money and banking services.

(ii) Barriers to financial service provision and to local content and employment

Some barriers to improved financial service provision and to local content and employment are entrenched. For example, a population that is poor and not well educated has limited need for or ability to use many financial services. A lack of financial knowledge and suspicion of financial agents can amplify these constraints. Similarly, the level of access to financial services and even the ability of micro and small enterprises to be able to handle the financial and other management skills required to work effectively in a formal business environment, which is generally entailed in supplying goods and services to resource companies or their main contractors, will develop slowly. In addition, it is not yet apparent that there are strong business reasons for the banking sector to get involved with smaller, less-experienced and resourced, and dispersed clients – and the financial sector faces few of the increasingly specific requirements placed on extractive industries to contribute to national development goals.

Others, however, can be more readily addressed. SME/industry linkage programs and supplier development programs have shown it is possible to help small firms perform in the supply value chain. Even medium sized firms, which are likely to be formally registered, have reasonable management and financial control systems and use some bank services, are likely to benefit from such support. Some smaller firms have been shown they can develop into such suppliers with incentives and support.

Nonetheless, the three following basic conceptual barriers need to be addressed when developing policies and programs to improve financial service provision and local content and employment.

Realism on the potential contribution of SMEs. Much falls on the shoulders of SMEs. While it is true that they account, numerically, for the vast majority of Mozambican businesses and employment (when one takes into account micro enterprises), they also face very significant challenges to achieve commercial success. Aside from medium sized firms, practically no SMEs have access to institutional financial systems. They are unlikely to do so until they master management, financial, technical and marketing skills. It does little to help SMEs achieve a greater share of the investment and economic activities associated with the extractives industries sector unless one is able to address these constraints.

Recognition of bank interests and roles. The financially excluded are sometimes referred to as the “unbanked.” This use of unbanked is emblematic of confusion about the appropriate role of banks in a poor, developing economy.

Driven by their shareholders, the fundamental focus of banks is low risk, high return clients. They might be encouraged for example by the Bank of Mozambique, to ensure broader branch presence in districts and less served areas. But neither government nor the independent Bank of Mozambique should get involved in bank decision-making responsibility unless it is on the basis of a comprehensive policy that takes account of views of all stakeholders and the possible consequences for banks and government (and through government, society).

Banks serve a particular function and are the foundation of the banking and economic system. The role they play and the services they offer primarily depend on the demands of their clients and the consistency of this demand with the bank’s profit motive. As a key to the financial system, their widespread presence is needed to facilitate payments and savings in the economy as a whole. In this way, they are a crucial element in deepening access to finance. But their limitations of will or ability in contributing to financial inclusion should be recognized.
Building on the investments and economic activities associated with the extractives sector in Mozambique requires many inputs from the banking sector: enabling secure savings and payments to participants in the extractives value chain, supplying capital and facilitating its movement between sectors, and managing foreign exchange flows are among its key roles. These services are most effectively directed at clients who meet the banks’ necessary concern for management of risk. Trying to move such services to clients who have difficulty in meeting bank risk management needs, or might be able to do so at an unacceptably high cost to banks, has few advantages to banks or society.

**Balanced policy development.** Government has been actively developing policy to maximize the hiring of nationals, involving national firms and promoting local procurement in the extractives sector. These policies are based in the mining sector ministry but are backed by specific complementary legislation in finance, industry and commerce, labor and education ministries, among others. Major extractives firms in particular have responded well in this environment.

In contrast, there has been limited policy development to facilitate improved financial inclusion of individuals or SMEs associated with the extractive or other sectors. There is an almost complete absence of policies or programs that improve financial inclusion, especially for individuals or business outside urban areas, or promote financial literacy. Given the banking sector’s profitability and its servicing of the extractives sector, this absence of focus on smaller participants in the value chain stands out.

**(iii) Role of FSDMoç in expanding financial inclusion**

FSDMoç could have three main of roles in improving financial service provision and local content and employment among SMEs, individuals and rural households active in investments and economic activity associated with the extractive sector.

One is to **take a lead in deepening understanding** of the three “conceptual” barriers noted above:

- Realism on the potential contribution of SMEs to employment and local content in particular;
- Recognition of bank interests and roles in expanding financial inclusion; and
- Balanced policy development wherein the financial sector benefits from attention similar to that shown to extractive industry

A second role for FSDMoç is to **take a lead in policy development**. One such area of need concerns the role of mobile money services. The regulations and expectations for mobile money services should be updated so they are a key to money transfers, savings and management outside the banking system.

Another area is the updating of the legal framework for financial services to better respond to the current economic and social environment and to national development goals. At the least, FSDMoç could take a lead in identifying and promoting policy changes that could help move the financial services sector to better support the individuals and smaller firms that are likely to be most involved with the extractives sector as employees and suppliers – though, in fact, the benefits will be economy-wide.

A third role for FSDMoç would be to **work with other stakeholders on specific practices**. Nine such areas are listed in (i) above. In addition, the following are fields where FSDMoç’s input would seem welcome:

- Working with resource companies to establish procurement and payment documentation and procedures that are suited to likely medium and small scale goods and service providers;
- Helping resource companies, financial services and goods/service providers in resources zones (e.g., Tete, Nampula, Cabo Delgado and Inhambane) and Maputo establish an ongoing mechanism for better understanding the needs of each, and to develop concrete programs to strengthen local content provision in particular;
- Updating experience of SME/industry linkage programs in Mozambique and in selected other African countries, including links between them and the financial services sector, and lead an effort to establish effective linkage programs in Mozambique;
- Disseminating examples of procurement and financial service activities that result in significant local content provision and employment in the extractives sector; and
- Evaluating experience with potentially SME relevant financial products in Mozambique like lines of credit for SMEs, guarantees, flexible and unsecured loans and equity products.
Annex 1: References Consulted


GIZ. (no date). *Resource Sector Mozambique: New Markets - New Opportunities*. GIZ.


Miamidian, E. (2014). MSME Credit Lines in Mozambique. DFID.


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# Annex 2: Mining and Hydrocarbon Companies Active in Mozambique

## A. Coal

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Mine (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ICVL</strong></td>
<td>Benga (Changara, Tete)</td>
<td>In production since 2012</td>
<td>112 million tonnes (m t) (proven and probable)</td>
<td>$1,500 million</td>
<td>Bought from RTCM 2013; limited production at Benga</td>
</tr>
<tr>
<td><strong>Vale</strong></td>
<td>Moatize 1 &amp; 2 (Moatize, Tete)</td>
<td>In production since 2012, at 11 million tpa</td>
<td>276 m t (proven)</td>
<td>$3,700 million (mine only)</td>
<td>Largest operation, exporting at loss, Phase 2 (11 m tpa to start 2017. 600 MW power station planned</td>
</tr>
<tr>
<td><strong>Jindal</strong></td>
<td>Chirodzi (Changara, Tete)</td>
<td>Limited production since 2012</td>
<td>700 m t (proven) 25 years</td>
<td>$750 million</td>
<td>Transport issues (by truck). Talk of coal slurry pipeline to Beira and power plants</td>
</tr>
<tr>
<td><strong>Beacon Hill</strong></td>
<td>Minas Moatize (Moatize, Tete)</td>
<td>Production halted</td>
<td>26 m t (proven) 15 years</td>
<td>$350 million</td>
<td>Bankrupt, for sale</td>
</tr>
<tr>
<td><strong>Minas de Revuboè</strong></td>
<td>Revuboe (Changara, Tete)</td>
<td>None, in development</td>
<td>1.4 billion tonnes (estimated)</td>
<td>$1,100 million</td>
<td>For sale since 2011, limited on-going work aiming at 2016 production (6 m tpa)</td>
</tr>
<tr>
<td><strong>Sunflag</strong></td>
<td>Sol (Mutarara, Tete)</td>
<td>None, in development</td>
<td>45 m t</td>
<td>$220 million</td>
<td>Could start production (2 m tpa) in 2017</td>
</tr>
<tr>
<td><strong>Ncondezi Coal</strong></td>
<td>Ncondezi (Matema, Tete)</td>
<td>None, in development</td>
<td>1.3 m t 25 years</td>
<td>$375 million</td>
<td>Will produce only for 1,800MW power station; to start 2017</td>
</tr>
<tr>
<td><strong>ENRC</strong></td>
<td>Estima (Cahora Bassa, Tete)</td>
<td>None, in exploration/development</td>
<td>25 m t (estimated)</td>
<td>$800 million</td>
<td>Talk of 25 m tpa, power station, coal-to-liquid plant</td>
</tr>
<tr>
<td><strong>Kingho</strong></td>
<td>Kingho (Mufa, Marara, Tete)</td>
<td>None, in exploration; talk of 5 m tpa</td>
<td>504 m t</td>
<td>Minimal</td>
<td></td>
</tr>
<tr>
<td><strong>Midwest Africa</strong></td>
<td>Tete, Tete</td>
<td>None, in exploration; talk of 5 m tpa</td>
<td>454 m t (estimated)</td>
<td>Minimal</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* Company websites and media.
### B. Heavy Sands

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Mine (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kenmare Resources</strong></td>
<td>Moma (Moma, Nampula)</td>
<td>Started 2007, 0.8 m tpa</td>
<td>26 m t</td>
<td>$888 million</td>
<td>Largest current producer; cutting back due to market issues</td>
</tr>
<tr>
<td><strong>Haiyu Mozambique Mining Company</strong></td>
<td>Angoche, Nampula</td>
<td>Production started, no data</td>
<td>N.A.</td>
<td>$30 million</td>
<td>Talk of titanium processing in Nacala SEZ</td>
</tr>
<tr>
<td><strong>Savannah Resources</strong></td>
<td>Jangamo (Inhambane)</td>
<td>None, in pre-development</td>
<td>65 m t</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Rio Tinto</strong></td>
<td>Mutamba, etc. (Inhambane)</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Anhui Foreign Economic Construction Group, Yunnan Xin Li Non-Ferrous Metals Co. Ltd.</strong></td>
<td>Chibuto (Chibuto, Gaza)</td>
<td>None, in exploration</td>
<td>75 m t</td>
<td>$471 million</td>
<td></td>
</tr>
<tr>
<td><strong>Globe Metals &amp; Mining</strong></td>
<td>Mamba (Mamba, Nampula)</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Afrifocus Resources</strong></td>
<td>Angoche, Nampula Gile, Zambezia</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Africa Great Wall Mining Development Company</strong></td>
<td>Nicoadala, Inhassunge, and Chinde, Zambezia</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>$130 million</td>
<td></td>
</tr>
<tr>
<td><strong>Africa Yuxiao Mining Development</strong></td>
<td>Inharrime, Inhambane</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Pathfinder Minerals</strong></td>
<td>Moebase, Namburi (Zambezia)</td>
<td>None</td>
<td>71 m t</td>
<td>$500 million</td>
<td>Asset ownership dispute</td>
</tr>
</tbody>
</table>

Source: Company websites and media.

### C. Graphite

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Mine (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Syrah Resources</strong></td>
<td>Balama Graphite, (Balama, Cabo Delgado)</td>
<td>None, in development</td>
<td>117 m t</td>
<td>N.A.</td>
<td>Production planned 2015</td>
</tr>
<tr>
<td><strong>Triton Minerals</strong></td>
<td>Balama North Cobra Plains (Balama)</td>
<td>None, in development</td>
<td>103 m t</td>
<td>$110 million</td>
<td>Production planned 2015</td>
</tr>
<tr>
<td><strong>Metals of Africa</strong></td>
<td>Montepuez Graphite (Balama)</td>
<td>None, in exploration</td>
<td>1,150 m t</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Mozambi</strong></td>
<td>(Balama)</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td><strong>Graphit Kropfmuhl Graphite</strong></td>
<td>(Ancuabe, Cabo Delgado)</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td>Recent alliance with Triton Minerals</td>
</tr>
</tbody>
</table>

Source: Company websites and media.
### D. Iron Ore

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Mine (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Damodar Ferro Lda</td>
<td>(Lalaua, Nampula)</td>
<td>In production since 2011</td>
<td>N.A.</td>
<td>N.A.</td>
<td>Limited production?</td>
</tr>
<tr>
<td>Baobab Resources</td>
<td>(Chiuta, Tete)</td>
<td>None, in development</td>
<td>156 m t</td>
<td>$820 million</td>
<td>Production for planned steel r-bar plant</td>
</tr>
</tbody>
</table>

Source: Company websites and media.

### E. Gemstones

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Mine (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gemfields</td>
<td>Montepuez and Megaruma, Cabo Delgado</td>
<td>In production</td>
<td>N.A.</td>
<td>$27 million</td>
<td></td>
</tr>
<tr>
<td>Vision 2000</td>
<td>Cuamba, Niassa</td>
<td>In production?</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>OGI Group (Save River Diamonds Project)</td>
<td>Manica</td>
<td>None, in exploration</td>
<td>N.A.</td>
<td>N.A.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company websites and media.

### F. Gas

<table>
<thead>
<tr>
<th>Owner/Operator</th>
<th>Gas Field (Location)</th>
<th>Production</th>
<th>Reserves</th>
<th>Investment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sasol</td>
<td>Temane, Pande (Inhambane)</td>
<td>In production</td>
<td>2.6 tcf</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sasol</td>
<td>Inhassoro (Inhambane )</td>
<td>In development</td>
<td>1,100 bpd</td>
<td>Oil</td>
<td></td>
</tr>
<tr>
<td>PT Energi Mega Persada Tbk.</td>
<td>Buzi (Sofala)</td>
<td>In exploration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anadarko</td>
<td>Area 4, Rovuma Basin (off-shore)</td>
<td>In exploration</td>
<td>75 tcf</td>
<td>N.A.</td>
<td>Anadarko Petroleum Corporation (26.5%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mitsui &amp; Co (20%)</td>
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<td></td>
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<td></td>
<td>ONGC Videsh (20%)</td>
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<td></td>
<td></td>
<td>ENH (15%)</td>
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<td></td>
<td></td>
<td></td>
<td>BRPL Ventures (10%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>PTT Exploration and Production (8.5%)</td>
</tr>
<tr>
<td>ENI</td>
<td>Area 1, Rovuma Basin (off-shore)</td>
<td>In exploration</td>
<td>85 tcf</td>
<td>N.A.</td>
<td>ENI (50%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>China National Petroleum Corporation (20%)</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td>Korea Gas (10%)</td>
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<td>Galp Energia (10%)</td>
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<td>ENH (10%)</td>
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</tbody>
</table>

Source: Company websites and media.
Annex 3: Building on Extractives Sector Investments and Economic Opportunities

<table>
<thead>
<tr>
<th>Extractive Industries</th>
<th>Root Cause</th>
<th>Interventions</th>
<th>Status/Experience</th>
<th>Comment</th>
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</thead>
<tbody>
<tr>
<td>1. Local content policies and targets pursued but often via intermediaries or passed on to subcontractors</td>
<td>Subcontractors are primary players in achieving local content targets. However, the extractives companies set targets for their contractors.</td>
<td>E.g., Anadarko uses Pyxera to carry out local content initiatives. As the majority of procurement will be through Anadarko’s subcontractors, they need to be involved in the initiatives</td>
<td>Monitoring local content, and strengthening ability of SMEs to deliver can be costly and time consuming to the extractives firm or subcontractor</td>
<td>• All suppliers should have relevant local content goals&lt;br&gt;• Local content monitoring by third parties</td>
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<tr>
<td>2. View of company role in development not shared by all companies</td>
<td>Local content and CSR needs to be seen as integral to business model</td>
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<td></td>
<td>• Need to integrate initiatives into company culture and business, e.g. the Anglo Zimele Supply Chain Fund takes SME equity</td>
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<tr>
<td>3. Procurement and payment processes suited to larger firms</td>
<td>Lack of awareness by extractives firms of challenges SMEs face (e.g., cash flow)</td>
<td>Larger extractives firms are trying payment alternatives</td>
<td>Slow payments have severe consequences for small firms</td>
<td>• An area for bank and company collaboration</td>
</tr>
<tr>
<td>4. Limited involvement of local communities except via CSR</td>
<td>Difficult to involve local community due to lack of skills/capabilities</td>
<td>CSR initiatives and proactive training, purchasing and employment</td>
<td>Success depends on the project and will of the company</td>
<td>• Possibility of communities being left out completely as labor and SMEs move in</td>
</tr>
<tr>
<td>5. Limited access to company and other reports on gap analyses, training, etc.</td>
<td>Limited incentives to share</td>
<td>Government SME databases should be prepared so can be made public</td>
<td></td>
<td>• Government should lead by example with publicly useful data</td>
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<table>
<thead>
<tr>
<th>SMEs</th>
<th>Root Cause</th>
<th>Interventions</th>
<th>Status/Experience</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Need support throughout business life cycle</td>
<td>Generally low capabilities, and poor financial and business management skills which limit access to finance</td>
<td>Larger extractives firms often take training and supplier development initiatives; some complemented by government (IPEME)</td>
<td>Not wide reaching. Cannot rely on extractives firms to be primary suppliers of training and business development</td>
<td>• Collaborative, client-based training, technical assistance needed; government has role in programming and funding</td>
</tr>
<tr>
<td>2. Challenged to scale up business or to collaborate with others</td>
<td>Lack of access/demand for finance. Many small firms do not trust banks and rely on savings</td>
<td>“SME” lines of credit for SMEs may go mainly to medium/large firms</td>
<td>Outreach by banks mainly ignore reality of micro/small firms; custom products needed</td>
<td>• Financial education and literacy&lt;br&gt;• Relevant bank products and trained staff&lt;br&gt;• Mobile money and branchless banking</td>
</tr>
<tr>
<td>Problem/Sector</td>
<td>Root Cause</td>
<td>Interventions</td>
<td>Status/Experience</td>
<td>Comment</td>
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<tr>
<td>Financial Services</td>
<td>1. Limited interest in SMEs</td>
<td>Lines of credit for SMEs, largely donor-funded; not all linked to extractives</td>
<td>Operated largely under normal bank procedures; demand only from larger firms;</td>
<td>• Not sustainable in current bank management/portfolio environment</td>
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<td></td>
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<td>subsidized interest rates; definitions of SMEs vary</td>
<td>rarely succeeded by in-house SME focus.</td>
<td>• Do not lead to sustainability without SME management improvements</td>
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<td>• Evaluation of lines of credit useful</td>
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<td></td>
<td>Bank staff not trained or oriented to SME lending (or to most other</td>
<td>Successful while staff in place but little attempt at retention or focus on SME/extractives markets</td>
<td>• Specialized, trained and retained loan staff indicative of bank SME support</td>
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<td>specialized sectors)</td>
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<td></td>
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<td>Documentation requirements for lines of credit and other funds challenging to</td>
<td>Banks require similar documentation for all loans; funders of lines of credit can add more</td>
<td>• Documentation requirements rule out many micro and small firms</td>
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<td>SMEs</td>
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<td>Higher interest rates (bank lending for SMEs can be 16-36 per cent; MFIs average 40 per cent and can be up to 100 per cent annually)</td>
<td>Subsidized rates on SME lines of credit</td>
<td>• Lower interest rates would not improve access to finance for many SMEs</td>
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<td></td>
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<td></td>
<td>Interest rates not necessarily the main constraint to SME credit access</td>
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<td>Lending guarantees not available for SMEs outside of lines of credit</td>
<td>SMEs not targeted outside of lines of credit, though some banks showing increased interest</td>
<td>• SMEs require technical assistance as well as guarantees</td>
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<td></td>
<td>Few products available for SMEs (e.g., flexible loans, unsecured loans</td>
<td>Banks and SMEs should together identify products, test, and</td>
<td>• Donor-funded facilities could cover</td>
</tr>
<tr>
<td>Individual Entrepreneurs</td>
<td>1. Limited business skills or interest beyond family base</td>
<td>CSR projects by extractives firms</td>
<td>Success depends on the project and will of the company</td>
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<tr>
<td>Rural Communities</td>
<td>1. Few skills, limited resources, low or unrealistic expectations</td>
<td>CSR projects by extractives firms</td>
<td>Success depends on the project and will of the company</td>
<td>• Focus on food demand throughout value chain</td>
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</tbody>
</table>

- **Limited investment and business growth orientation, market research and focus on client needs**
- **IPEME gives SME training; some extractives companies also provide technical assistance**
- **Needs training/technical assistance within up-dated strategy**
- **Collaborative client-led training and individual long-term technical assistance needed**
- **Low capabilities; focus on consumer products**
- **CSR projects by extractives firms**
- **Success depends on the project and will of the company**
- **Main role would be to serve wage-earners and gain skills and capital for small business**
- **Low capabilities; focus on agriculture products and provision of labor**
- **CSR projects by extractives firms**
- **Success depends on the project and will of the company**
- **Focus on food demand throughout value chain**
- **Banks have less risky and more remunerable options, and SMEs have limited bank exposure**
- **Lines of credit for SMEs, largely donor-funded; not all linked to extractives; subsidized interest rates; definitions of SMEs vary**
- **Operated largely under normal bank procedures; demand only from larger firms; rarely succeeded by in-house SME focus.**
- **Not sustainable in current bank management/portfolio environment**
- **Do not lead to sustainability without SME management improvements**
- **Evaluation of lines of credit useful**
- **Bank staff not trained or oriented to SME lending (or to most other specialized sectors)**
- **Donor programs train loan officers on SME lending (e.g., IFC, KfW with Moza Banco, Banco Oportunidade)**
- **Successful while staff in place but little attempt at retention or focus on SME/extractives markets**
- **Specialized, trained and retained loan staff indicative of bank SME support**
- **Documentation requirements for lines of credit and other funds challenging to SMEs**
- **None known**
- **Banks require similar documentation for all loans; funders of lines of credit can add more**
- **Documentation requirements rule out many micro and small firms**
- **Higher interest rates (bank lending for SMEs can be 16-36 per cent; MFIs average 40 per cent and can be up to 100 per cent annually)**
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<tbody>
<tr>
<td>Microfinance institutions have high costs and many rely on external funds and so have high interest rates.</td>
<td>Numerous, e.g., FSTAP, RFSP, FARE</td>
<td>The number of MfIs is declining due to a lack of long-term sustainability and the drying up of cheap funds</td>
<td>implement the less risky guarantees and enable banks to test products</td>
<td></td>
</tr>
<tr>
<td>2. Limited financial services sector outreach</td>
<td>Banks are urban-based and focused on less risky options; many microfinance institutions similarly constrained</td>
<td>Government/Bank of Mozambique encourage banks to open branches in provinces and districts</td>
<td>Slow uptake by banks; districts and extractives areas under-served; Moza Banco trying “basic branches”</td>
<td>• Have potential to serve smaller, unbanked clients; financially sustainable models needed</td>
</tr>
<tr>
<td>3. Limited impact of electronic banking</td>
<td>Electronic banking benefits people/institutions with bank accounts, yet very limited bank access by smaller businesses and poorer people; little incentive for banks to serve this market</td>
<td>All banks have electronic banking services; some have enables these to be access by clients through their mobile phones</td>
<td>Useful for bank clients; not accessible by others (save as recipients of funds transferred by phone by bank clients of a small number of banks)</td>
<td>• Challenge is to better link electronic banking with non-bank systems, and for banks to have affordable basic services for poor individuals and micro/small businesses</td>
</tr>
<tr>
<td>4. Limited mobile money systems</td>
<td>Relative recent introduction of mobile money and their regulation; products and infrastructure to serve demand to well developed; phones widespread but poverty remains</td>
<td>Two of three mobile phone companies have introduced mobile money programs</td>
<td>Particularly useful for people without bank access, but need development of other services (e.g., savings) and wider use of mobile money by employees and purchasers of goods/services</td>
<td>• Mobile money could become a key to deepening financial inclusion • Mozambique is behind peers in terms of regulation and practice</td>
</tr>
</tbody>
</table>

**Government**

<p>| 1. IPEME support for SME development | Policy focus but limited operational experience with clients | Policy development, data gathering and training of individuals and businesses | Practical impact not clear; limited private sector experience; training and technical assistance demand outstrips supply; should input to financial sector policy | • Challenge of providing effective public support to private sector institutions • If role and monitorable targets reviewed could make positive impact |</p>
<table>
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</tr>
</thead>
<tbody>
<tr>
<td>2. Ministry of Finance documentation requirements</td>
<td>Requires detailed documentation for taxes and banking sector</td>
<td>Introduction of simplified tax regime (2009)</td>
<td>Simplified tax regime requires reasonable financial management skills and encouragement of SMEs/individuals to adopt; conflicted system as seen by MoF as means to widen tax net</td>
<td>• Impact of MoF tax requirements on SMEs could be assessed&lt;br&gt;• Gap between simplified and “normal” tax accounting may encourage firms to under-declare</td>
</tr>
<tr>
<td>3. Documentation requirements to set up business</td>
<td>Arcane laws and procedures, multiple agencies and individuals involved</td>
<td>Single window business facilitation system (BAU) established</td>
<td>Improvement but still complicated for the non-experienced</td>
<td>• Registration remains relatively costly for micro and small businesses</td>
</tr>
<tr>
<td>4. Special economic zones do not encourage SMEs</td>
<td>Focus on national and international larger investors</td>
<td>MozLink II Beluluane</td>
<td>Focused on a small number of firms that rely on Mozal</td>
<td>• Could also have role as SME incubators</td>
</tr>
<tr>
<td>5. Local content, employment, national business and procurement</td>
<td>Mining and oil/gas law requirements need regulation</td>
<td>Some larger extractives firms have developed active local content, training and employment programs</td>
<td>Informal pressure heaviest on some foreign firms</td>
<td>• Clarify goals for all firms, and clarify expectations for SMEs in these contexts</td>
</tr>
<tr>
<td>6. Limited training in business skills addressing priority actual needs</td>
<td>Need technical assistance, mentoring and training (by individuals with practical experience) on business and financial management, compliance with procurement and government processes</td>
<td>Increased programming of business-related training</td>
<td>Courses are start but they need to reach relevant trainees, be practical and focused on needed business skills, be taught by trainers with private sector experience, and have follow up one-on-one support</td>
<td>• Design interventions based on purchaser and supplier needs, and provide follow-up support</td>
</tr>
<tr>
<td>7. Monitoring of SME development strategy and support programs</td>
<td>Lack of capacity to monitor and analyse in government and poor coordination between extractives and government</td>
<td>Variety of initiatives underway appear to be underway</td>
<td>No clear leadership or coordination of efforts; no useful outcomes</td>
<td>• Update SME development strategy and support programs, then appoint third party monitor</td>
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</table>
## Annex 4: Status and Potential Development at Micro/Macro/Meso Level

<table>
<thead>
<tr>
<th>Level and Sector</th>
<th>Status</th>
<th>Potential Development</th>
<th>Comment</th>
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<tbody>
<tr>
<td><strong>Micro level (Market level)</strong></td>
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</table>
| Extractives companies | • Rely on national/international banks for most in-country finance needs  
• Local employment prioritized as per law, including via training programs; challenge with higher skilled tasks  
• Support local procurement of appropriate goods and services; priority to quality, timeliness, quantity, convenience and cost | • Continue improvement in local employment and local procurement policy and results  
• Focus on ways to use local and national suppliers and employees  
• Review procedures for disincentives for local suppliers (e.g., payment terms)  
• Interact with financial services to produce tools suited to local suppliers (e.g., payment guarantees) | • Gap analysis for employment and procurement in context of operational and legal requirements should inform realistic goals (which change with time)  
• Distinguish between construction and operational needs  
• Can have import duty advantage over local suppliers  
• Will be increasingly obliged to hire and procure nationally, where feasible  
• Strengthening of SME business skills and individual technical skills in company interest  
• Gap analysis for employment and procurement in context of operational and legal requirements should inform realistic goals (which change with time)  
• Distinguish between construction and operational needs  
• Can have import duty advantage over local suppliers  
• Will be increasingly obliged to hire and procure nationally, where feasible  
• Strengthening of SME business skills and individual technical skills in company interest |
| Sub-contractors to extractives companies | • Involved in goods and services supply, domestic and international  
• Subject to national labor law  
• Unclear if required by law to follow local procurement guidelines, and/or if extractives companies require this | • Extractives companies outline their local procurement expectations of sub-contractors involved in goods and service supply, and monitor these  
• Sub-contractors review procedures for disincentives for local suppliers (e.g., payment terms)  
• Origin of supplied goods and services to be transparent  
• Aim at increasing participation of SMEs that are larger in size | • Expectations should be established and monitored by the extractives companies, and monitored  
• Much “local” procurement and supply currently done by non-national companies |
| SMEs | • Limited involvement in goods and services supply, directly and via sub-contractors  
• Supplying SMEs based primarily in commercial and administrative centers  
• Main constraints include company size, form of management and access to finance  
• International SMEs also active | • Medium firms involved in goods and services supply, and have bank access  
• Larger firms can monitor and support smaller firms, including medium, small and in some cases micro enterprises | • Helped by company/subcontractor goals and lines of credit; but have difficulty with financial and supply standards; challenges in scaling-up from micro/small to medium |
| Communities | • Minimal involvement except as labor | • Greater involvement through training, local entrepreneurs, local employment and local content requirements | • Limited/minimal financial or business literacy |
| Finance sector | • Lines of credit for MSMEs  
• Strict requirements – | • SME specific training on banks human resources. | • Formal banks do not accommodate small and micro |
<table>
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<tr>
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<th>Potential Development</th>
<th>Comment</th>
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</thead>
</table>
| Financial records, environmental assessment, feasibility studies. | • Threshold for viable branch presence  
• Interest rates | • More training to SMEs on financial management.  
• Flexible finance products.  
• Work with microfinance institutions/banks, which have rural/micro/small firm outreach but lack financial sustainability. | firms – and are unlikely to do so without significant improvement in capabilities from SMEs.  
• Might be better possibility for SME support in the microfinance and informal finance sector. |
| Macro level (Sector policies and regulations) | | | |
| Financial sector policies | • Many macro level policies and funds targeted to improving finance/microfinance sector e.g. FSTAP, BIFSMO, RFS, RFSP, FARE, FFM | • Outcomes in terms of increasing financial inclusion or serving SMEs very limited | • Appears difficult to identify policies, programs of products that reach the poor and smaller businesses |
| Extractives sector policies | • Local purchase requirements  
• Local employment requirements  
• Local ownership requirements  
• Payment policies hurt smaller firms | • Depends on will of extractives companies to procure locally.  
• Many loopholes around law. | • For the law to succeed need to have a comprehensive local content policy/strategy.  
• Need cross party involvement, e.g., SME, private sector, extractives companies, NGOs, government, banks |
| SMEs | • Strategy for SME Development (2007) | • Outdated, no account of resources sector. Financial needs recognized but no successful outcomes | • Next business census due this year; could be chance to update strategy (2007 Strategy was based on 2005 business census) |
| | | | |
| | • IPEME | • Limited capacity | • Requires technical assistance |
| Meso level (Wider sector infrastructure) | | | |
| Banking presence | • Primarily provincial capital presence, expanding slowly | • Important as anchor of institutional accounts but limited impact on individuals (22 per cent have accounts) | |
| Electronic banking | • Branch based | • Will not in itself deepen financial inclusion | |
| Mobile money | • Established from 2012 | • Can be key tool in deepening financial inclusion, and ultimately linking people/business to banking system | |
| Information | • General service info available | • Lack of information on business processes and opportunities is one of the most cited challenges for SMEs | |