Advancing Financial Inclusion for Smallholder Households in Mozambique
TABLE OF CONTENTS

3 Tables
4 Figures
5 Boxes
6 Acronyms and initializations
9 Foreword
10 Executive summary
14 Introduction
15 Role of the smallholder in the Mozambican economy
16 Key changes from 2012 to 2016
18 Enabling and inhibiting factors
18 Macro level
18 Enabling factors
18 Inhibiting factors
19 Meso and micro level
19 Enabling factors
20 Inhibiting factors
21 Client level
21 Enabling factors
21 Inhibiting factors
22 Smallholder profile and need for financial services
22 Profile of smallholder population
31 Smallholders’ need for financial services
36 Smallholders’ access to financial services
36 Smallholders levels of access
39 Smallholders product uptake
43 Summary
44 Key players in advancing financial inclusion for smallholder farmers
44 Overview of financial sector
46 FAO input subsidy scheme
47 Market linkage institutions: out-grower companies
49 Community-based institutions: accumulating savings and credit associations
52 Community-based institutions: rural finance associations
52 Community-based institutions: individual agents
53 Mobile money operators
56 Commercial banks
62 Agent banking
63 Microbanks
64 Credit cooperatives
65 Microcredit operators
67 Insurance
70 Regulatory framework
72 Government and development partner activities
72 Government funds
73 Agrifinance-focused programs
76 Agricultural development programs
79 Conclusions and recommendations
79 Conclusions
80 Recommendations
82 Population
83 Economic overview
85 Infrastructure
87 Annex 2. Macro-level analysis for smallholder financial inclusion
87 Strategies and plans
90 Coordinating bodies
90 Key service providers to the banking sector
91 Annex 3. Summary of FSP loan characteristics
92 Annex 4. References
TABLES

22 Table 1. Distribution of Agricultural farms, by province
24 Table 2. Which of the following income sources is...?
27 Table 3. Document possession by smallholders
34 Table 4. Methods of coping with hardship by smallholders
35 Table 5. Methods of dealing with anticipated events by smallholders
50 Table 6. ASCA’s national portfolio (2014)
51 Table 7. Mobile operators portfolio (February 2016)
51 Table 8. Cost, limits of transactions, and eligibility criteria
59 Table 9. Commercial bank agricultural loan characteristics
61 Table 10. Credit lines and guarantee funds for agriculture
63 Table 11. Commercial banks portfolio (December 2015)
64 Table 12. Microbank loan features
65 Table 13. Microbank portfolio (December 2015)
65 Table 14. Credit cooperatives features
66 Table 15. Credit cooperatives portfolio (December 2015)
66 Table 16. Microcredit operator’s distribution, per province
67 Table 17. Portfolio statistics of selected microcredit operators (February 2016)
68 Table 18. Insurance companies’ locations
70 Table 19. Microinsurance coverage
75 Table 20. Microinsurance products
76 Table 21. Ongoing finance-focused programs (in millions US$)
84 Table 22. Ongoing agriculture focused programs (in millions US$)
84 Table 23. Agriculture portion on GDP (in 10^6 Mt)
91 Table 24. Employment and GDP, by sector
25 Table 25. Summary of FSP loan characteristics

BOXES

22 Box 1. Customer journey
24 Box 2. ESOKO
27 Box 3. Mobiles 4 All: New users, new insights, better data
32 Box 4. Key examples of digital finance services in Mozambique
35 Box 5. Agra guarantee fund
35 Box 6. An agricultural commodity warehouse receipt system for Mozambique
51 Box 7. Agriculture and natural resources landscape management project, 2016–2021

FIGURES

23 Figure 1. Size of agricultural holdings in Mozambique
23 Figure 2. Food and staple crops
23 Figure 3. Cash crops
23 Figure 4. Poverty status of the household ($1.25/day)
24 Figure 5. Poverty status of the household ($2.50/day)
24 Figure 6. Sources of income
25 Figure 7. Household income from agricultural and nonagricultural production (June 2014–July 2015): Smallholder Diaries families in Mozambique
26 Figure 8. The vicious cycle of hunger season in Mozambique
28 Figure 9. Smallholder’s education level
28 Figure 10. Smallholder’s age
28 Figure 11. Mozambique smallholder household segments
31 Figure 12. Top 10 reasons for saving
31 Figure 13. Barriers for using savings
32 Figure 14. Reasons for using loans
33 Figure 15. Barriers for using credit
33 Figure 16. Reasons for being part of a xitique and general xitique group
34 Figure 17. Access strand, by main source of income
36 Figure 18. Rural access strand, by main source of income
39 Figure 19. Urban access strand, by main source of income
39 Figure 20. Distance to reach the nearest selected financial service access points
37 Figure 21. Mr. Chipindu’s journey to a bank ATM
38 Figure 22. Bank products used and top 10 reasons for having or not having a bank account, (rural, urban)
39 Figure 23. Smallholder savings strand
39 Figure 24. Smallholder credit strand
40 Figure 25. Remittance use and channels
41 Figure 26. Insurance access strand
41 Figure 27. Use of informal services
42 Figure 28. How xitique and xitique geral were used
42 Figure 29. Categories of financial institutions and respective supervisory authority
44 Figure 30. Formal financial service providers versus distribution of smallholders, per province
45 Figure 31. Rural commercial bank branches and adult population, by province
47 Figure 32. Urban commercial bank branches and adult population, by province
60 Figure 33. Banking credit, per sector, 2013, and 2015
63 Figure 34. Microbank branches, per province
83 Figure 35. Mozambique poverty incidence by urban and rural areas
84 Figure 36. GNI per capita 2014 (2011 PPP $)
84 Figure 37. Contribution to GDP per sector
### ACRONYMS AND INITIALIZATIONS

<table>
<thead>
<tr>
<th>ADEL</th>
<th>Sofala Local Economic Development Agency (Agência de Desenvolvimento Económico Local de Sofala)</th>
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<tr>
<td>ADEM</td>
<td>Manica Province Economic Development Agency (Agência de Desenvolvimento Económico da Província de Manica)</td>
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<tr>
<td>AEO</td>
<td>African Economic Outlook</td>
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<td>AMB</td>
<td>Mozambican Bank Association (Associação Moçambicana de Bancos)</td>
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<td>AMOMIF</td>
<td>Mozambican Association of Microfinance Operators (Associação Moçambicana de Operadores de Microfinanças)</td>
</tr>
<tr>
<td>ASCA</td>
<td>Accumulative Savings and Credit Associations</td>
</tr>
<tr>
<td>ATM</td>
<td>Automatic Teller Machine</td>
</tr>
<tr>
<td>BCI</td>
<td>Banco Comercial de Investimento</td>
</tr>
<tr>
<td>BIM</td>
<td>Banco Internacional de Moçambique</td>
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<tr>
<td>BM</td>
<td>Bank of Mozambique (Banco de Moçambique)</td>
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<tr>
<td>BMM</td>
<td>Mozambique Commodity Exchange (Bolsa de Mercadorias de Moçambique)</td>
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<tr>
<td>BOM</td>
<td>Banco Oportunidade de Moçambique</td>
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<tr>
<td>BTM</td>
<td>Banco Terra de Moçambique</td>
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<tr>
<td>CCCP</td>
<td>Caixa Comunitária de Crédito e Poupança</td>
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<tr>
<td>CCOM</td>
<td>Caixa Comunitária de Microfinanças</td>
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<tr>
<td>CEPAGRI</td>
<td>Center for Agriculture Promotion (Centro de Promoção de Agricultura)</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CPPM</td>
<td>Caixa de Poupança Postal de Moçambique</td>
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<td>CRC</td>
<td>Central Credit Registry</td>
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<tr>
<td>DfID</td>
<td>Department for International Development</td>
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<td>DFS</td>
<td>Digital Finance Services</td>
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<td>DUAT</td>
<td>Right of Use and Tenure Land (Direito do Uso e Aproveitamento da Terra)</td>
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<tr>
<td>ECA</td>
<td>Empresa de Comercialização Agrícola</td>
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<td>EMOSE</td>
<td>Empresa Moçambicana de Seguros</td>
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<td>ETG</td>
<td>Export Trading Group</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FARE</td>
<td>Fundo de Apoio Reabilitação Económica</td>
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<tr>
<td>FBAs</td>
<td>Farm Business Advisors</td>
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<td>FDA</td>
<td>Fundo de Desenvolvimento Agrário</td>
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<td>FDD</td>
<td>Fundo de Desenvolvimento Distrital</td>
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<td>FDR</td>
<td>Fundo de Desenvolvimento Rural</td>
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<td>FECOP</td>
<td>Fundo Empresarial da Cooperação Portuguesa</td>
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<td>FINS</td>
<td>Financial Inclusion National Strategy</td>
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<td>FNB</td>
<td>First National Bank</td>
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<td>FSDMoç</td>
<td>Financial Sector Deepening Mozambique</td>
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<tr>
<td>GIZ</td>
<td>German Corporation for International Cooperation</td>
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<td>GNI</td>
<td>Gross National Investment</td>
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<tr>
<td>IAM</td>
<td>Mozambique Cotton Institute (Instituto de Algodão de Moçambique)</td>
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<tr>
<td>ICC</td>
<td>International Capital Corporation Moçambique</td>
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<tr>
<td>ID</td>
<td>Identification Document</td>
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<td>iDE</td>
<td>International Development Enterprises</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>INE</td>
<td>Instituto Nacional de Estatística (National Statistic Institute)</td>
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<tr>
<td>ISSM</td>
<td>Mozambique Insurance Supervision Institute (Instituto de Supervisão de Seguros de Moçambique)</td>
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<tr>
<td>iTC</td>
<td>Community Land Initiative (Iniciativa de Terras Comunitarias)</td>
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<tr>
<td>JFS</td>
<td>João Ferreira dos Santos</td>
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<tr>
<td>KYC</td>
<td>Know Your Customer</td>
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<tr>
<td>LTR</td>
<td>Land Tenure Rights</td>
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<tr>
<td>M4A</td>
<td>Mobiles 4 All</td>
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<tr>
<td>MFSDS</td>
<td>Mozambique Financial Sector Development Strategy</td>
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<tr>
<td>MLT</td>
<td>Mozambique Leaf Tobacco</td>
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<tr>
<td>MSMEs</td>
<td>Micro, Small, and Medium Enterprises</td>
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<tr>
<td>MZM</td>
<td>Mozambican Metical</td>
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<tr>
<td>NGOs</td>
<td>Nongovernment Organizations</td>
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<tr>
<td>NUIT</td>
<td>Unique Fiscal Identification Number (Número Único de Identificação Tributária)</td>
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<tr>
<td>PCG</td>
<td>Partial Credit Guarantee scheme</td>
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<tr>
<td>PEDSA</td>
<td>Strategic Plan for Agricultural Development</td>
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<tr>
<td>POS</td>
<td>Point of Sales</td>
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<tr>
<td>PROIRRI</td>
<td>Sustainable Irrigation Development Project</td>
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<tr>
<td>PROMER</td>
<td>Rural Markets Promotion Programme</td>
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<tr>
<td>PRONEA</td>
<td>National Agricultural Extension Programme</td>
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<tr>
<td>RFA</td>
<td>Rural Finance Association</td>
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<tr>
<td>SDP</td>
<td>Social Development Programme</td>
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<tr>
<td>SECF</td>
<td>Small Emerging Commercial Farmers’</td>
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<tr>
<td>SIMO</td>
<td>Interbank Society of Mozambique (Sociedade Interbancária de Moçambique)</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>WR</td>
<td>Warehouse Receipts</td>
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<tr>
<td>WRS</td>
<td>Warehouse Receipt System</td>
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</table>
Any serious effort to advance financial inclusion in Mozambique must put this segment of the population centre stage.

FSDMoç has partnered with CGAP, the Consultative Group to Assist the Poorest, to shed light on the opportunities to advance financial inclusion to Mozambique’s rural poor. In 2016, FSDMoç and CGAP launched the National Survey and Segmentation of Smallholder Households in Mozambique, a study undertaken by CGAP in collaboration with the Instituto Nacional de Estatística (INE), as well as CGAP’s financial diaries of smallholder households in a district of Nampula Province.

The present report brings together key findings from those two studies with information from other sources, in particular the 2014 Finscope study into Access to Finance, as well as data from INE and the Banco de Moçambique. It also builds on the FinMark Trust’s 2012 report on the Status of Agricultural and Rural Finance in Mozambique.

This report clearly demonstrates the changing financial inclusion landscape of rural Mozambique illustrated by:

> The increase in informal savings groups, known as ASCAs, which are often the first important step towards financial inclusion;

> The spread of digital financial services and mobile-enabled information services;

> The in-acting of legislation, under the aegis of the Banco de Moçambique’s, enabling agent banking, microinsurance, and warehouse receipts; and

> The emphasis placed by the authorities on financial inclusion as captured in the 2016 launch of the Banco de Moçambique’s Financial Inclusion Strategy.

But it goes further to highlight that:

> Rural farmers could play a central role in the development of agriculture but investments are needed to improve their productions methods

> Improving small scale farmer access to financial could address these constraints

> Small scale farmers require not only credit, but savings and ways to receive and make payments.

> Innovative solutions designed around the small scale farmers needs and behaviours, that address infrastructural challenges of distance, and leverage on partnerships between mobile operators, informal services, off-takers and formal financial institutions are required.

Through partnerships with organisations such as CGAP, FSDMoç will support the financial sector stakeholders by providing the insights that will assist in developing innovative approaches to meet demand for financial services. FSDMoç will partner with financial sector stakeholders to address market weaknesses and opportunities identified, providing both funding and technical expertise.

FSDMoç welcomes the contribution that CGAP has made to making available this rich source of information and is proud to be associated with the publication of this report.

“FSDMoç welcomes the contribution that CGAP has made to making available this rich source...”
EXECUTIVE SUMMARY

CGAP recognizes that advancing smallholders’ financial inclusion is possible only through extensive research and evidence-based demand- and supply-side solutions.

To understand the financial needs and behaviors of low-income smallholder families and build the evidence base on this important client group, CGAP conducted financial diaries with approximately 90 smallholder households in each of Pakistan, Tanzania, and Mozambique. Complementing the qualitative work of the diaries, CGAP also conducted a nationally representative survey of smallholder households (“smallholder surveys”) in Mozambique. The objective of the smallholder survey is to elucidate the heterogeneity of the sector, including households’ agricultural and nonagricultural activities and cash flows, financial behaviors, and perceptions of their agricultural and financial lives. The current CGAP Advancing Financial Inclusion for Smallholders in Mozambique study adds information on the supply and enabling micro, meso, and macro environment, providing an update of the 2012 “Status of Rural and Agricultural Finance in Mozambique” report conducted by ICC.

This study combined an integrated analysis of supply, demand, and factors that facilitate or inhibit the provision of financial services to smallholders. The demand analysis is based on recent data from Mozambique 2014 FinScope Consumer Survey, the 2015 Financial Diaries, the 2015 CGAP National Survey of Smallholder Households and other relevant demand data. The supply and the enabling factors analysis is based on primary data collected through in-depth interviews with the formal and informal financial institutions, government, development partners, and facilitators.

This analysis updates the 2012 paper1; it will highlight the changes verified in agricultural and rural finance from 2012 to 2016 from a service provider and policy perspectives. The country socioeconomic profile and the macro-level information are presented in the Annexes because the main focus of the report is on the smallholder.

The enabling and inhibiting factors impinging on smallholders’ access to finance are presented. At a macro level, many of the problems relating to infrastructure are seemingly intractable. Electricity continues to be problematic and transport is difficult. Key areas of agricultural production, particularly in Zambézia, Manica, and Sofala, are currently dangerous and not secure, and hence very expensive. These issues are addressed in more detail in Annex 1.

The smallholders’ profile indicates that they account for more than 75 percent of the population, with the highest concentrations in Zambézia and Nampula provinces. Smallholders farm very small plots, and grow a variety of products, mainly for consumption, though some grow cash crops such as sugar, sesame, tobacco, and cotton. In large part, they live below the poverty line of US$2.50 per day (84 percent of rural smallholders). There is very little use of fertilizer or pesticides, and little animal husbandry, apart from chickens. Income is not regular throughout the year and smallholders have few means to smooth income to match expenditure. This results in “hungry months” where there may not be enough to eat, or more likely there may not be enough variety to provide a balanced diet, resulting in illness at the very time the family is least able to afford health services.

Smallholder farmers play a crucial role in the Mozambican economy as a major producer of food, yet their production potential is far from being met. Smallholder farmers largely practice rain-fed agriculture and use traditional varieties of crops, low-intensity fertilizer, and minimal pesticides. Farming is generally done without mechanization and productivity of the land is typically

1The Status of Agricultural and Rural Financial Services in Mozambique, Finmark Trust, 2012
Although these families’ main activity is growing food, they are the most susceptible to malnutrition. Long experience has shown that it is possible to increase yields two or threefold through relatively simple interventions, but these mechanisms seem to have eluded the country. Moreover, in Mozambique’s current dire economic situation, the need to produce more to reduce reliance on imported food, is more acute than ever, and the case for concerted action to provide smallholders with the services they have so long required is more compelling than ever.

Despite their central role in the economy, they are part of one of the most marginalized sectors, particularly in terms of access to finance. Farmers do not make the necessary investments in their farms to boost their yields, for two primary reasons: (1) many lack the working capital needed to purchase better seeds and fertilizer, and (2) many farmers don’t have the risk appetite to try new crop and seed varieties or plant higher-value crops. This situation calls for financial solutions to set money aside or borrow for seeds and fertilizer, savings solutions that help farmers pay school fees or finance an off-farm business, or insurance that enables farmers to take more risks, coupled with access to technical agricultural training and information to enable them to make best use of these services.

Smallholders generally lack the key elements they need to access formal financial services, namely identification documents and mobile phones. Data from the National Survey of smallholder farmers in Mozambique was segmented to identify the drivers of financial inclusion and identify their levels of attractiveness to financial service providers. The segmentation indicates that although the percentages of the more dynamic, financially included segments are small, they still represent a significant market in absolute terms. The 7 percent classified in the three segments most likely to access formal financial services translate into some 1.5 million people, or nearly 370,000 households. In terms of their need for financial services, the priority is saving for agricultural inputs and for both foreseeable and unforeseeable expenses (e.g., school expenses and medical costs). The services need to be available in an accessible way, such as accumulative savings and credit associations (ASCAs), without the complicated requirements of account opening procedures imposed by a bank. Digital financial services will be an important driver of financial inclusion in the future, but first steps include financial education; the availability of the digital infrastructure, including mobile phones; and an effective agent network. For instance, the smallholder survey found that most (54 percent) do not own a mobile phone.

Physical distance has been the major impediment for smallholders’ increased access to financial services, and ASCAs are playing a tremendous role in expanding the access frontier. Data from the 2014 Finscope Survey detail current levels of financial inclusion or, more accurately, exclusion, as 80 percent of smallholders are excluded. The main reason for this exclusion is the physical distance between smallholders and access points for financial services. Despite the very high level of exclusion from formal financial services, Finscope and National Survey data show that smallholders do save when possible and that informal mechanisms, such as xitique and ASCAs, offer a viable mechanism for financial inclusion.

Out-grower schemes and ASCAs are critical in providing financial and technical assistance to smallholders. Several important companies in the agribusiness sector work successfully with smallholder farmers, though many face logistical problems when it comes to payment and actively seek solutions with financial institutions. New technological developments play a crucial role in opening up new possibilities. However, informal services, principally ASCAs, are often the first and most important step. Informal services can also serve as a first step to introducing digital services as shown by the digitalization of ASCA operations.

Commercial banks continue to look for ways to finance agriculture, and several credit lines and guarantee funds have been set up. In addition to these mechanisms, there are other ways in which banks can contribute to the financial inclusion of smallholders, often in partnership with other organizations that are better positioned to operate in rural areas. However, the risk profile of this sector makes it unlikely that financing from banks directly to smallholders will ever become a reality. The impact of traditional microfinance operators—microbanks,
microcredit operators, and credit cooperatives—continues to be limited. Microinsurance, in an incipient phase, is likely to develop first in urban areas, but could expand in rural areas, if an affordable and effective agricultural product can be marketed via mobile phones.

Government and development partner activities actively promote financial inclusion of smallholders through various initiatives and programs. This is a good approach, given the strategic importance of agriculture and, within the sector, the primordial role of the smallholder. There are several government and development partner programs designed to support this effort. Three relevant government funds are designed to support agriculture and finance:

> Fundo de Desenvolvimento Agrário
> Fundo de Desenvolvimento Distrital
> Fundo de Desenvolvimento Rural

Each of these faces limitations in effectiveness. Some government and development partners’ activities, listed here under agrifinance-focused programs, combine activities both to support production and improve access to finance; others are more generally focused on agriculture. The funds allocated to these programs are approximately US$200 million over five years.

Notwithstanding, there are many opportunities to advance financial inclusion for smallholder farmers that have yet to be explored. Many players interact or could interact with smallholder farmers to improve agricultural productivity and provide access to finance. Often these roles can be effectively combined, particularly if this is done through partnerships such as an off-taker and a bank, an agricultural marketer and a mobile money operator, and ASCAs and mobile money operators. There are many examples of well-organized farmers’ associations facilitating the interaction between agribusiness companies and smallholders. Warehouse receipts are another effective way to link smallholder farmers with financial institutions and the wider market, while reducing post-harvest losses and allowing the smallholder to sell when prices are more favorable. The possibility of providing agricultural advice via mobile phones is still largely unexplored. Major advances have been made by the mobile money operators in extending their services to rural areas, and this will continue with the entry into the market of two new players, Movitel’s mobile money and Zoona, an operator-neutral money transfer service.

While smallholder farmers are still largely financially excluded, there have been remarkable changes on the supply side and in the enabling environment since the 2012. On the macro level, Banco de Moçambique launched its financial inclusion strategy and financial education initiative. Furthermore, new legislation and regulations have been enacted on banking agents, microinsurance, and warehouse receipts. On the supply side, mobile money operators have made significant advances in their outreach and are partnering with banks, nongovernment organizations, and others to find real solutions that are appropriate for Mozambique. Banks are making significant investments in extending their services via digital channels, while ASCAs have been the most effective informal financial services for rural areas, continuously including the low-income segments in the financial sector. From an economic sector perspective, agriculture is getting more attention from donors, with several large projects aimed at increasing productivity and promoting financial inclusion. In addition, in recent years large agricultural trading companies have been expanding their activities, investing in local communities, promoting better agricultural practices, and providing a market for production. Farmers’ associations are playing a bigger role as the counterpart for agricultural companies by facilitating sales, financial education, and training.

This report presents a set of recommendations and best practices targeted to the private sector, donors, and policy makers that will enable them to overcome the current barriers to financial inclusion for smallholder households. Some of the recommendations focus on the need to increase agricultural income through the promulgation of better farming techniques and access to improved seeds, fertilizer, and pesticides, ways to reduce post-harvest losses, and better market linkages. In regard to financial services, ASCAs continue to play an important role. Although banks are not likely to deal directly with smallholder farmers, they can effectively partner with other organizations as a conduit, be they farmers’ associations, agribusinesses, or mobile money operators. This report highlights the need for partnerships and robust financial education. Development partners have a critical role to play as a catalyst for change and as facilitators. Given the weakened state of the economy, donor community investment in large, well-coordinated programs will be crucial.
INVESTING IN FINANCIAL INCLUSION

Its importance is felt daily in its capacity to meet an individual’s lifecycle, emergency, opportunity, and money management needs. Yet, more than half of working-age adults do not have access to financial services, especially in rural areas of developing countries. Smallholder families represent a large part of the financially excluded population, leading to numerous global efforts to bring access to finance to this segment.

Understanding the financial needs and behaviors of low-income smallholder families enables stakeholders to invest in evidence-based interventions to improve the economic and financial situation of smallholders. To develop this understanding and to build an evidence base on smallholders, CGAP conducted financial diaries with approximately 90 smallholder households in each of Pakistan, Tanzania, and Mozambique. These were complemented by a series of nationally representative surveys of smallholder households (“smallholder surveys”) in Mozambique, Uganda, Tanzania, Côte d’Ivoire, Nigeria, and Bangladesh. The objective of the smallholder surveys is to elucidate the heterogeneity of the sector, including households’ agricultural and nonagricultural activities and cash flows, financial behaviors, and perceptions of their agricultural and financial lives.

Building on these demand-side studies, this holistic analysis explores the supply side of the market, the enabling environment, and key stakeholders. It also provides a set of recommendations and best practices that enable players to overcome current barriers to financial inclusion for smallholder households, and identify particular questions or constraints to explore or untangle. With this analysis, stakeholders can better align their efforts and identify areas for strategic interventions.

To interpret these results, it is important to note that the research encountered limits in the availability of some data. First, because the financial sector in Mozambique is undergoing a restructuring phase, certain banks were unwilling to openly disclose their orientation toward agriculture finance, particularly those banks that had a significant agriculture portfolio at the time of the 2012 report. Second, although banks were open to meeting with consultants conducting the interviews, obtaining data from the banks proved to be a challenge because release of certain data required internal authorizations, which were not always forthcoming. To fill in the data gaps, the consultants requested aggregate data from the Bank of Mozambique (BM). Finally, banks found it difficult to identify the total number of individual clients engaged in agriculture, because a majority of bank clients are legal entities and some banks provide credit to groups or associations, thereby registering only two or three members of the group. This situation inhibits monitoring of the impacts of agriculture and smallholder finance.
ROLE OF THE SMALLHOLDER IN THE MOZAMBICAN ECONOMY

Agriculture is one of the largest sectors of the Mozambican economy. It contributes 25 percent of the Gross National Product and 20 percent of export revenues;

80 percent of the population is involved in agricultural activities. Agricultural production is largely organized in small, hand-cultivated units of land. Ninety-nine percent of production comes from 3.8 million subsistence farms; these farms are 1.43 hectares on average.

Smallholder farmers play a crucial role in the Mozambican economy. Smallholder agriculture is a major producer of food, and yet it is one of the most marginalized sectors, particularly in terms of access to finance. Smallholder farmers largely practice rain-fed agriculture and use traditional varieties of crops, low-intensity fertilizer, and minimal pesticides. Farming is generally done without mechanization, and the productivity of the land is typically low. Although their main activity is growing food, smallholders are highly susceptible to malnutrition. Long experience has shown that it is possible to increase yields two- or threefold with relatively simple interventions, but the mechanisms for doing this seem to have eluded the country.

Moreover, in Mozambique’s current dire economic situation, the need to produce more locally so as to reduce reliance on imported food is more acute than it has ever been, and the case for concerted action to provide smallholders with services they have required for so long is more compelling than ever.

Farmers do not make the necessary investments in their farms to boost their yields for two primary reasons. First, many lack the working capital needed to purchase better seeds and fertilizer. Second, many farmers don’t have the risk appetite to try new crop and seed varieties or plant higher-value crops.

This calls for financial solutions that set aside money or borrow for seeds and fertilizer, savings solutions that help farmers pay school fees or finance an off-farm business, or insurance that enables farmers to take more risks, coupled with access to technical agricultural training and information to enable them to make best use of these services. Traditionally, banks have had little interest in serving populations of farmers that live far from bank branches and require small transaction sizes, which yield limited revenue. Microfinance organizations of various types have had some local success but they do not seem to have a business model that enables them to grow and increase their impact. They are also hampered by limited management capacity and insufficient capital to invest in technology and in their loan fund.

Government credit schemes have also failed to consistently and sustainably serve smallholders. The studies on which this report is largely based—CGAP Smallholder Financial Diaries, CGAP’s National Survey and Segmentation of Smallholder Households in Mozambique, and Finscope’s Financial Inclusion Study—do not identify any significant access to the financial services supposedly available to this segment. However, there are important changes in the financial services landscape, which, together with effective interventions to improve smallholder productivity, can finally begin to bring significant changes to smallholders’ financial inclusion.

“Microfinance organizations of various types have had some local success but they do not seem to have a business model...”
Many of these changes represent positive steps toward improving productivity and financial inclusion.

MACRO

> Worsening economic and security situations have negative effects on smallholder operations through increased input prices. Moreover, this situation may deter stakeholders from helping smallholders, particularly those in the center of the country where the security issue is felt the most.
> Banco de Moçambique (BM) launched its Financial Inclusion Strategy, which includes the strategy for financial education and indicates a high-level commitment to financial inclusion, with emphasis on smallholders.
> BM introduced a regulation on banking agents and some of the major banks rolled out banking agent networks, thus allowing banks to expand to rural areas at lower costs.
> BM introduced the regulation of Warehouse Receipts, Bolisa de Mercadorias launched pilot projects, and the USAID Trade Hub, including certification of some 15 warehouses and development of a software platform to manage the business, was created.
> Microinsurance legislation to provide special, more accessible requirements for companies to enter into this market and provide smallholders with solutions that respond to their risks was discussed.

MESO AND MICRO

FINANCIAL SERVICES

> The national payments system switch, SIMO, launched. SIMO allows for a more interoperable payment system thereby reducing the costs of transactions, particularly in rural areas where banks are not abundant.
> Mobile money services grew significantly, with substantial investment by Vodacom and to a lesser extent by MCel in expanding their coverage and promoting the use of their mobile money services. The imminent entry into the market of Movitel, the mobile network operator (MNO) with the widest network coverage in rural areas, will enhance the potential for mobile money services, particularly if interoperability becomes a reality.
> The launch of Zoona, a mobile money payments service not linked to any mobile network, is pending.
> Several new lines of credit and guarantee schemes aimed at agriculture, thus reducing the risks facing financial institutions in the agriculture sector, were introduced.
> Several banks have developed tablet or smart phone apps that permit remote client registration and loan origination.
> Several banks have developed digital financial services, which are critical components to expanding financial services to vulnerable segments and remote areas globally.
> The banking sector, whose eventual benefits to smallholders are as yet unclear, has been restructured.
> Some banks and the mobile money operators have developed partnerships to extend services to the nonbanked.
> There has been a relative decline of microfinance in the banking sector, with the purchase of TCHUMA and ProCredit, and the failure of rural microfinance institutions (MFIs) to grow and make significant impacts.
> The growth of accumulative savings and credit associations (ASCAs), has enabled smallholders to access savings and credit products in more convenient ways.

AGRICULTURE

> Out-grower and agricultural trading companies have grown.
> Significant projects to promote agriculture and incorporate access to financial services have been funded by the World Bank, USAID, DFID, and others.
> FAO has launched its e-voucher scheme for providing subsidized inputs to smallholders and emerging farmers.
> The Bolsa de Mercadorias/Warehouse Receipts Scheme is being developed; when completed, it will aim to allow farmers to use their produce as collateral to access credit at formal financial institutions.

CLIENTS

> Increased extension services have been provided via donor-funded projects and out-growers. These services equip smallholders with the best practices in agriculture activity.
> Market links have increased through out-grower companies and farmers’ associations.
> The growth of effective farmers’ associations is enabling interventions to be more collective and risk sharing.
> Financial literacy has increased. This will enable smallholders to use financial services responsibly and in ways that improve their economic and financial situation and not increase their vulnerability.
> Mobile phone ownership and awareness of mobile money has increased. This allows smallholders to opt for a more convenient way of accessing and using financial services.
ENABLING AND INHIBITING FACTORS

Agriculture is one of the largest sectors of the Mozambican economy. It contributes 25 percent of the Gross National Product and 20 percent of export revenues;

MACRO LEVEL

ENABLING FACTORS

Positive support from BM for financial inclusion. This is evidenced not only by the Mozambique Financial Sector Development Strategy (MFSDS) 2011–2020 and the Financial Inclusion National Strategy (FINS) 2016–2022, but by the concrete actions taken by BM in implementing useful regulations on banking agents and warehouse receipts. Other regulations, such as one on opening new branches, may have inadvertently discouraged branch opening, and instead promoted the development of branchless banking technologies.

Political commitment for rural development. Plano Quinquenal do Governo 2015–2019 includes specific chapters on agriculture and on the need to integrate smallholders into VCs. However, the capacity to implement these strategies is weak and the plan’s main objective—to “consolidate national unity, peace and sovereignty”—is proving elusive.

Weak currency makes imports more expensive and exports more attractive. The dramatic fall in the value of the metical has once again brought to the fore the need for Mozambique to produce more food and reduce the quantities it imports. It also makes Mozambique’s exports more attractive. This should encourage a focus on increasing the productivity of the sector.

Willingness of donors to continue implementing large-scale projects. Although the 2012 report on the Status of Agricultural and Rural Finance noted that dependence on donor programs is unsustainable, recent experience is that the large-scale programs being implemented with support from the World Bank, USAID, DfID, and others are crucial for bringing about real change in the agricultural sector.

Increased use of renewable energy. Given the inability of the national electricity company, EDM, to supply reliable power to the nation, we are seeing more initiatives to promote renewable energy, such as the line of credit for businesses involved in renewables, administered by BM and financed by KfW, and a new DfID multimillion pound project to be launched in 2017, to promote companies involved in small solar systems, green mini-grids, and more efficient cooking stoves. M-Kopa, a pay-as-you-go household solar system that uses mobile money to allow frequent small payments to facilitate acquisition of the systems, is very interested in these efforts.

INHIBITING FACTORS

Failure to implement national strategies to strengthen agriculture. Although the government has defined many strategies to improve smallholders’ productivity and financial inclusion, these do not have action plans that guarantee the implementation of coordinated actions to achieve the goals of the respective strategies.

Political instability and lack of security. The current low-level civil war is impacting some of the country’s most productive areas in Zambézia and Manica provinces. It is making road transport dangerous and expensive and will inhibit the marketing of agricultural production.

High interest rates. At the end of October 2016, BM raised the reference rate for credit to 23.25 percent. At this level, even the small amount of credit that goes to agricultural becomes unviable. It is unclear when rates may start to fall, or even whether they have reached their peak.

Pending banking crisis. The economic crisis has already led to one bank, Moza, being taken under BM control and another, Nosso Banco, having its license withdrawn. The Ministry of Economics and Finance is forecasting further problems in the banking sector.

Inadequate infrastructure leading to high operating costs. The 2012 report identified deficiencies in the road and power networks as major inhibiting factors. Given

“Given the size of the country and the limited existing road network, it will be many years before this will change....”
the size of the country and the limited existing road network, it will be many years before this will change. As for electricity, there have been moves to increase the use of renewables, including construction of mini-grids. German Corporation for International Cooperation (GIZ) has been promoting suitable technologies under its EnDev program, and DfID is preparing a large program, BRILHO, to promote the use of renewable energy.

Inappropriate reporting demands. Microbanks are subject to the same reporting requirements that apply to fully fledged commercial banks. Mobile money operators, classified as financial institutions, also have inappropriate reporting requirements. Rather than a "one-size-fits-all" approach, reporting requirements should be tailored to the needs for prudential supervision of each type of institution.

Restrictive regulations on location of data processing. BM regulations require that financial service providers maintain their data processing within country. This regulation inhibits the use of cloud-based systems which could be of great benefit for small MFIs that do not have the financial capacity to maintain a costly local IT infrastructure.

MESO AND MICRO LEVEL

ENABLING FACTORS

Banks embracing and actively developing digital services — as detailed in the report, banks are actively investing in new technology to roll out digital services. While many, such as mobile apps for smart phones, will initially target wealthier, urban clients, this lays the groundwork for the extension to poorer clients.

Growing outreach of mobile phone/mobile money operators — the growth of outreach of mobile phone/mobile money has been one of the key characteristics of recent years. As noted in the report, the imminent entry into the mobile money market of two new players, Movi- tel and Zoona, will give a further boost. However, the scope for delivering financial services through these channels should not be exaggerated as there are several conditions that must be in place to be able to take maximum advantage.

Development of partnerships between banks and mobile money operators — although it is possible to see banks and mobile money operators are rivals in the provision of financial services, there are also opportunities for fruitful collaboration, and mobile money operators have always made clear their willingness to participate in joint ventures and integrate their information systems. Contrary to some of the rhetoric about mobile money making cash redundant, mobile money needs banks to be able to function well.

Stronger farmers’ associations — for many years, nongovernment organizations (NGOs) have promoted farmers’ associations, with mixed success. The more successful ones are now playing a very important role in the interaction between the smallholder and other players, in the areas of bulking product for marketing, accessing credit, facilitating financial education and improving agricultural techniques. Many still need support to be able to execute all these roles.

New opportunities offered through mobile technology — there are examples in other sub-Saharan countries of the use of mobile phones to provide extension services to smallholder farmers, such as mFarmer in Kenya and Farmerline in Ghana. Some projects are now being piloted in Mozambique.

Warehouse Receipts — warehouse receipts as promoted by the Bolsa de Mercadorias de Moçambique and USAID’s Trade Hub offer secure facilities to store agricultural products in appropriate conditions, access to finance, and increased linkages to the market. It is also a relatively risk-free...
way of involving the banks in financing agriculture

**INHIBITING FACTORS**

**Limited outreach of banking institutions** — although the number of bank branches, automated teller machines (ATMs) and point-of-sale (POS) devices has risen significantly in the past few years, this has scarcely scratched the surface in terms of increasing access to financial services. Given the very high cost of operating in rural areas, it is to be expected that the banks’ outreach will be determined by their ability to use alternative strategies. Even banking agents are likely to operate relatively close to a branch because of the need for support and supervision.

**Banks’ limited commitment to financing agriculture** — despite the existence of numerous lines of credit and guarantee funds to encourage banks, and to a lesser extent, other financial service providers to lend to agriculture, take-up seems quite limited. The experience of Standard Bank and the AGRA fund is probably being replicated in other banks. The recent rise in interest rates and the effect of increasing bad debts in other sectors, such as commercial and construction, will make their use more problematic. For smallholder financing, banks are so risk-averse that these will not be sufficient to provoke a change in attitude.

**Failure of MFIs to grow to a scale sufficient to make a significant impact** — although the creation of new kinds of microcredit institutions was made with high hopes of increasing services to the rural areas, growth has been slow and limited.

**Lack of interoperability between mobile money operators and between mobile money and other payment systems** — the launch of Movitel's mobile money product can have a significant impact on access to digital finance services (DFS) because of their extensive network coverage in rural areas. MPesa and, to a lesser extent, other established players have experience in promoting agent networks and educating clients. Interoperability between the three companies would make the introduction of DFS for smallholder farmers much simpler. The Central Bank has stated this as an aim, but there is no plan yet. Some banks can integrate with mobile money through developments to their core banking systems and through payments switches, but there is still work to be done to achieve interoperability.

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**CLIENT LEVEL**

**ENABLING FACTORS**

**Gradual spread of better farming practices.** Although the process is relatively slow, and the government extension service is not entirely effective, agricultural practices are gradually improving because of interventions by NGOs and out-grower companies. Better seed supplies are also increasing. FAO’s e-voucher scheme will help to improve access to better-quality inputs, strengthen the input dealer network, and provide technical advice. The use of mobile-based technologies, such as those offered by ESOKO, could also play an important role.

**Continued growth of ASCAs.** Although good data are hard to come by, what exists indicates a continued growth in the number of ASCAs. This is undoubtedly the most effective first step on the path to financial inclusion.

**INHIBITING FACTORS**

**Low income levels.** Poverty and low income levels continue to be a significant barrier to financial inclusion.

**Low educational levels.** Low levels of literacy hinder participation in informal savings schemes and make mobile technology difficult to access.

**Small plot sizes.** The very small plot sizes make it difficult to produce enough for family consumption and with leftovers to sell or trade. One solution is higher productivity, through the correct use of fertilizers and pesticide, another is to reduce post-harvest losses. Land is not scarce and families could farm larger areas if they were able to pay for manual labor.

**Limited attraction of agriculture as an occupation.** Mozambique needs its smallholders to stay on the land, and agriculture is, therefore, the occupation of choice. As such, agriculture needs to be a more profitable business, through improved productivity and access to financial services.

"agricultural practices are gradually improving because of interventions by NGOs and out-grower companies. ..."
A majority of small agriculture farms are in the central (37 percent of smallholders) and northern (33 percent) regions. The most populated provinces, Zambézia and Nampula, are where most smallholders are located (around 36 percent).

Research from the Instituto Nacional de Estatística (INE) points to very small average farm sizes, with the average farm size ranging between 1 and 2 hectares. More than 80 percent all agricultural holdings manage fewer than 2 hectares.

**TABLE 1 SHOWS THE DISTRIBUTION OF AGRICULTURAL FARMS**

<table>
<thead>
<tr>
<th>PROVINCE</th>
<th>SMALL</th>
<th>MEDIUM</th>
<th>LARGE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Niassa</td>
<td>168,926</td>
<td>341</td>
<td>5</td>
<td>169,272</td>
</tr>
<tr>
<td>Cabo Delgado</td>
<td>414,029</td>
<td>4,436</td>
<td>21</td>
<td>418,486</td>
</tr>
<tr>
<td>Nampula</td>
<td>739,457</td>
<td>3,222</td>
<td>34</td>
<td>742,713</td>
</tr>
<tr>
<td>Zambézia</td>
<td>688,439</td>
<td>1,452</td>
<td>23</td>
<td>689,914</td>
</tr>
<tr>
<td>Tete</td>
<td>358,210</td>
<td>8,520</td>
<td>40</td>
<td>366,770</td>
</tr>
<tr>
<td>Manica</td>
<td>194,036</td>
<td>3,829</td>
<td>52</td>
<td>197,917</td>
</tr>
<tr>
<td>Sofala</td>
<td>228,983</td>
<td>3,113</td>
<td>77</td>
<td>232,173</td>
</tr>
<tr>
<td>Inhambane</td>
<td>199,354</td>
<td>13,603</td>
<td>36</td>
<td>212,993</td>
</tr>
<tr>
<td>Gaza</td>
<td>194,669</td>
<td>10,068</td>
<td>167</td>
<td>204,904</td>
</tr>
<tr>
<td>Maputo</td>
<td>775,971</td>
<td>3,288</td>
<td>273</td>
<td>779,532</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,962,073</td>
<td>51,872</td>
<td>728</td>
<td>4,014,673</td>
</tr>
</tbody>
</table>

a. Small farms—fewer than 10 ha of planted area without irrigation; fewer than 5 ha of irrigated planted area; fewer than 10 cattle, 50 goats/sheep/swine, and/or 5,000 poultry.

b. Medium farms—between 10 and 50 ha of planted area without irrigation; 5–10 ha of irrigated planted area; 10–100 cattle, 50–500 goats/sheep/swine, and/or 5,000–20,000 poultry.

c. Large farms—more than 50 ha of planted area without irrigation; more than 10 ha of irrigated planted area; more than 100 cattle, 500 goats/sheep/swine, and/or more than 20,000 poultry.

Source: Anuário de Estatísticas Agrárias 2015, Ministério da Agricultura e Segurança Alimentar
Smallholders mostly farm on plots that belong to the household under customary law (44 percent). This means that they do not have a title that states that the land belongs to them. About 24 percent of the households own their own land with a lease or a certificate. Around 14 percent share communal land, and 2 percent use land that belongs to the government.  

With these very small plots, most smallholders produce primarily for consumption, with little available for sale or for trading. The Smallholder Survey indicates that most of the crops grown are food crops (especially maize and cassava). Very few produce cash crops (12 percent produce sugar cane and 11 percent sesame).

Source: National Smallholders Survey, CGAP, 2016

Some of these traditionally considered food crops are now finding bigger markets. Cassava is being grown for sale to Cervejas de Moçambique to make beer, and Mozambique is a source of cowpeas for the Indian government. Other crops like soya are becoming increasingly important.

Not surprisingly, given these factors, smallholders are poor, particularly those in rural areas. Fifty-five percent of the smallholders are below the poverty line of US$1.25 a day; 85 percent are below the US$2.50 poverty line.
The Smallholder Survey found that income sources are relatively stable across demographics. There are small differences by age for farming-related activities and getting money from family. Those under 30 are slightly more likely to generate income by getting money from friends and family (38 percent vs. 30 percent of those age 30 and older). Those age 30 and older are more likely to earn income from growing and selling crops (61 percent vs. 53 percent of those age 15–29) or rearing livestock, fish, poultry, bees for sale (25 percent vs. 15 percent of those age 15–29).

Smallholder farmers who consistently contribute to the income of their households said that growing and selling crops are the most important, most reliable, and most enjoyable farming activities (Table 2). By comparing these three concepts, data show that a large portion of smallholder farmers equate the most important income source with the one they like getting the most and with the one that is the most reliable.

<table>
<thead>
<tr>
<th>INCOME SOURCES</th>
<th>MOST IMPORTANT (%)</th>
<th>LIKE GETTING THE MOST (%)</th>
<th>MOST RELIABLE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing something and selling it, such as crops, fruits, or vegetables</td>
<td>40</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Earning wages from occasional jobs</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Getting money from family or friends</td>
<td>8</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Earning wages or salary from a regular job</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Rearing livestock, poultry, fish, or bees, and selling it or its byproducts</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Running own business in retail or manufacturing (selling or making goods)</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Running own business by providing services</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Getting a grant, pension, or subsidy of some sort</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Don't know</td>
<td>13</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: National Smallholders Survey, CGAP, 2016
Besides crop production and livestock, some smallholder households earn income from other agricultural activities or sources (Figure 6). Less than one-quarter of farmers are involved in processing agricultural products. Smaller percentages resell or rent land to other farmers for growing crops.

More broadly, beyond agriculture, less than 7 percent of smallholder households receive payments from the government, such as pension, disability, or welfare. Of the small percentage that do, most pick up the money in cash or in person, while one-third receive the money in a bank account.

Smallholder household income does not match expenses, creating a disparity that only exacerbates their already dire financial situation. What smallholder families estimate as the minimum amount they need to survive per month is usually higher than what they earn in an average month. And the greater the household expenses, the greater the chance of falling short. In fact, only households that require less than 2,000 MZN per month are as likely to have a surplus as they are to have a deficit. Households that require 2,001 MZN or more per month typically fall short more often than they have a surplus, or they may break even in some cases. Farming households face this month after month, and with expenses that outweigh incomes, not only is there no way to save, there are also no savings to lean on when income is insufficient.

Agriculture is, of course, not the only source of income in smallholder households. The various sources of income fall into three broad categories, according to the Smallholders Financial Diaries: (i) sale of agricultural production, (ii) casual labor, and (iii) other nonagricultural sources, such as managing a small business, receiving remittances, or engaging in wage labor. At the median, smallholder households in the Mozambique sample had a total of eight distinct income sources. And even though the entire sample of participants in the Financial Diaries considered themselves to be farmers, their income-generating activities that are not related to their own agricultural production represent the larger portion of their cash income by far, with agricultural production income gaining significance only when in-kind income is also factored.
INVESTING IN FINANCIAL INCLUSION

SMALLHOLDER PROFILE AND NEED FOR FINANCIAL SERVICES

FIGURE 7: HOUSEHOLD INCOME FROM AGRICULTURAL AND NONAGRICULTURAL PRODUCTION (JUNE 2014–JULY 2015): SMALLHOLDER DIARIES FAMILIES IN MOZAMBIQUE (N=93)

<table>
<thead>
<tr>
<th>Income Sources</th>
<th>Agriculture production income</th>
<th>Nonagriculture production income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>6</td>
<td>93%</td>
</tr>
<tr>
<td>7%</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>49%</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>

(1) Median number of household income sources
(2) Median proportion of total household net cash income
(3) Median number of household income sources, factoring in in-kind consumption
(4) Median proportion of total household income factoring in in-kind consumption

Source: Smallholders Diaries, CGAP, 2016

The financial diaries also showed that the problem of the “hungry months” is not so much lack of food, but lack of variety in the diet, resulting in lack of essential nutrients. These months also coincide with the rainy season, a factor provoking increased health problems. This in turn meant reduced ability to do casual labor to earn income, though in any case, there is generally less casual labor required in this period.

FIGURE 8: THE VICIOUS CYCLE OF HUNGER SEASON IN MOZAMBIQUE

The National Survey also solicited information about elements that smallholders would need to be able to access financial services, most importantly, an acceptable identification document and a mobile phone.

More than three quarters (76 percent) of smallholders have an election card. Fifty percent of the smallholders have an ID card, and 46 percent have a birth certificate. Very few smallholders have other documents—4 percent have a passport and 3 percent have an employee ID. Table 3 indicates the type of documents that smallholders say they have. At first, this looks quite encouraging, since a voter’s card is one of the documents that the Banco de Moçambique allows to be used to open a bank account. However, not all commercial banks accept voter’s cards because they require an official document that includes the holder’s parents’ names. Moreover, some require proof of residence, which is problematic for people who live in areas with no defined addresses.

As will be shown later, the universe of smallholder farmers in Mozambique is broad and diverse. Some are already well-positioned to benefit from financial services. Mass take-up of financial services, however, will happen only with an improvement in their overall income levels, which essentially means improving the productivity of their agricultural activities and the linkages to markets to be able to sell their surpluses. Right now, the majority of smallholders are subsistence farmers who farm to feed their families, with an almost no orientation to commercial farming.
ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER HOUSEHOLDS IN MOZAMBIQUE

SMALLHOLDER PROFILE AND NEED FOR FINANCIAL SERVICES

TABLE 3: DOCUMENT POSSESSION BY SMALLHOLDERS

<table>
<thead>
<tr>
<th>Documents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voter card</td>
<td>76</td>
</tr>
<tr>
<td>ID/National ID</td>
<td>50</td>
</tr>
<tr>
<td>Birth certificate</td>
<td>46</td>
</tr>
<tr>
<td>Military ID</td>
<td>8</td>
</tr>
<tr>
<td>Village/LC ID</td>
<td>7</td>
</tr>
<tr>
<td>School-issued ID</td>
<td>5</td>
</tr>
<tr>
<td>Passport</td>
<td>4</td>
</tr>
<tr>
<td>Ration card</td>
<td>4</td>
</tr>
<tr>
<td>Driver’s license</td>
<td>3</td>
</tr>
<tr>
<td>Employee ID (for government/civil servants)</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: National Smallholders Survey, CGAP, 2016

In regard to mobile phones, around 44 percent of the smallholders have never used a mobile phone. Those who have used a phone primarily use a basic phone with no internet connection. About 60 percent of those without a mobile phone are interested in having one, and 38 percent are very interested. The costs of the phone and airtime are the main reason for not having a mobile phone. Absence of a network, no place to charge, not allowed to use, and no need to use it are other reasons for not having a cell phone, although on a much smaller scale (less than 5 percent for each reason).

The survey also showed the low educational levels of the smallholders and an analysis by age. The head of smallholder’s households is generally male (76 percent). Two-thirds are married or cohabiting, and only 13 percent are single. On average, smallholder households have four members.

The education level of the smallholders is relatively low. Around 32 percent of the heads of the household have never attended school, and 52 percent only have a primary school education. Only 1 percent of the smallholder heads of household received higher education (most of them are from urban areas). Almost half of the heads of household are young (47 percent are younger than 40 years old).

On the surface, this information may give the impression that smallholders as a group are not likely to be potential clients for financial services. National Survey data were used to segment the smallholder household sector in Mozambique by financial inclusion. Five segments of smallholder households were identified, driven by a number of factors that, together, were most likely to predict the likelihood of having a formal financial account (mobile money, bank, nonbanking financial institution).
SMALLHOLDER PROFILE AND NEED FOR FINANCIAL SERVICES

The six most predictable and discerning measures of financial account ownership among smallholder households are as follows:

- Educational attainment of the head of household.
- Socioeconomic status or Progress out of Poverty Index (PPI) of head of household.
- Access to emergency funds.
- Mobile phone ownership.
- Attitude toward the future.
- Encountering unexpected life and farming events.

The research identified five segments, as shown if Figure 11.

1. Farming for sustenance. The “farming for sustenance” segment represents the quintessential Mozambican smallholder farming household. This segment has the lowest household income of all five segments, and truly does live off of what the farm will produce, either consuming, selling, or trading the fruits of their agricultural labor. This is a highly vulnerable group, and perhaps it stands to gain the most from financial and agricultural mechanisms that can optimize their daily labor, reduce their risks, and help meet their basic needs.

2. Battling the elements. The “battling the elements” segment is also a vulnerable group, but without the severe income limitations of the “farming for sustenance.” A greater portion generates income from agriculture, and a greater portion of these households have multiple income sources. This segment is still challenged by limited levels of education and phone ownership, and the incidence of unexpected life or farm-related events. Experience with unexpected life events is somewhat greater for this group than others. This group has persevered through those challenges, sometimes using financial tools, making them a group that might better understand the value of having some form of a safety net. The biggest difference between this group and the first “farming for sustenance” group is higher income and more unexpected life events.

3. Diversified and pragmatic. The “diversified and pragmatic” segment reflects the realism and inner conflict that can characterize households. Financial mechanisms have enabled some of their perseverance and inner conflict that can characterize households. Consider the role of financial mechanisms in this segment’s decision to pivot into or out of farming depending on opportunities.

Source: National Smallholders Survey, CGAP, 2016
conflict that can characterize smallholder farming households. These households grow more, sell more, earn more, have more income streams, and have more connectivity to financial mechanisms. They haven’t suffered unexpected life events as much as the other segments and they have resources to overcome the challenges they do experience. Despite their enjoyment of farming, the pride they take in it, and their search for opportunities to grow it, many would diversify out of agriculture if given the opportunity. This is an important group, because it represents smallholder households that have diversified within and outside of agriculture to best sustain their household needs.

4. Options for growth. The “options for growth” segment earns a higher income, has more resources to lean on when the unexpected occurs, and is even optimistic about their future than the three segments already mentioned. But their future could take them either further within agriculture or outside of it. Their household income is equally split between agriculture and nonagriculture, and they grow less and sell less than the other three segments, but they are equally as passionate about agriculture, wanting to continue in it, and finding satisfaction with it, even as they embrace opportunities outside of farming. The youngest of all segments, these smallholders could pivot in either direction, depending on how they are approached and supported by policy makers, development organizations, and financial institutions.

5. Strategic agricultural entrepreneurship. The “strategic agricultural entrepreneurship” segment includes households that appear to be actively engaged at building their agricultural work with some indications of success or at least progress. The group is more enabled than others, having higher income, more education, access to emergency funds, and more financial mechanisms at their disposal. They’ve been impacted by the realities and challenges of agriculture and have been able to rely on their savings or other resources to get them through tough times. They aren’t as likely to want out, or be willing to take work outside of agriculture. This is a group that can be a model or a use case for carrying meaningful messages (or examples) for growth in other segments of the population.

Although the percentages of the more dynamic segments are small, these segments represent a significant market in absolute terms. The 7 percent of smallholder households that fall into the three segments that are mostly likely to access formal financial services encompasses some 1.5 million people, or nearly 370,000 households.

For financial service providers who are developing new solutions and targeting smallholders, these segments of smallholder households can help do the following:

> Identify which segment has the most potential for the organization and its intentions.
> Customize the types of mechanisms based on the demands of each segment.
> Fine-tune application and go-to market strategy based on market readiness of the target segment.
> Optimize market positioning of the mechanism to capture a specific segment of the population.
> Level-set expectations for uptake and use based on the size of the desired segment.
> Track impact of mechanism within the most relevant and intended segment.
Smallholder households use financial services (formal and informal) to meet a range of needs, including those that support their agricultural activities and those that respond to general household needs.

Most smallholders use savings to “increase their income,” especially in urban areas (66.9 percent). Because of the seasonality of their income, smallholders’ second major reason to save is to pay for living expenses when they do not have money (35 percent in rural areas and 21 percent in urban areas). Other reasons include experiencing a medical emergency (27 percent in rural areas and 19 percent in urban areas), experiencing some other emergency (17 percent in rural areas and 12 percent in urban areas), buying livestock for rural smallholders (14 percent), and paying for farming expenses for urban smallholders (16 percent).

**FIGURE 12: TOP 10 REASONS FOR SAVING**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Rural (%)</th>
<th>Urban (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase my income</td>
<td>46.4</td>
<td>66.9</td>
<td>56.6</td>
</tr>
<tr>
<td>Living expenses when you do not have money at that time</td>
<td>20.6</td>
<td>27.2</td>
<td>23.9</td>
</tr>
<tr>
<td>For an medical emergency</td>
<td>19.4</td>
<td>16.7</td>
<td>18.0</td>
</tr>
<tr>
<td>For an emergency other than medical</td>
<td>14.0</td>
<td>12.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Buying livestock</td>
<td>7.6</td>
<td>9.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Providing something for your family after you die</td>
<td>8.4</td>
<td>9.3</td>
<td>8.8</td>
</tr>
<tr>
<td>expenses such as nets or a boat</td>
<td>9.3</td>
<td>15.8</td>
<td>11.5</td>
</tr>
<tr>
<td>Buying or building a dwelling for you to live in</td>
<td>1.9</td>
<td>9.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Education or school fees</td>
<td>8.6</td>
<td>9.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Buying a bicycle, motorcycle, car, truck or other transport</td>
<td>6.2</td>
<td>9.0</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Source: Finscope 2014

---

9 This section is based mostly on the Finscope Mozambique Consumer Survey 2014. To obtain smallholders data, ICC selected data only from those who had stated that income from selling agricultural crops or income from selling livestock (of any kind) was their main source of income.

10 According to INE, urban areas are cities, villages, and municipalities in Mozambique.
The barriers to saving are similar between urban and rural smallholders...

However, although smallholders recognize the need to save and are clear about the purposes to which they would put savings, a question posed in the National Smallholders Survey shows how precarious the situation is for many of them. One question asked how possible it would be to come up with 1,000 meticais within the next month to respond to an emergency. Half of smallholders said it was either not possible or uncertain. Less than a quarter (21 percent) said that it would be very possible, and indicated that they would most likely draw the money from family or friends or their limited savings.

The barriers to saving are similar between urban and rural smallholders and can be grouped by three main constraints: income, literacy, and perception (see Figure 13). The main reasons smallholders in both areas do not save are lack of money (no money left because they allocate all their income to satisfy their household expenses and all money is put in the household pot)\(^{11}\) and it did not occur to them to save.

![Figure 13: Barriers for Using Savings](source: Finscope 2014)

Similar results were found in the National Survey, where 56 percent cited “no money” as a barrier to saving, and 21 percent said they didn’t know about savings services. However, given the success of the ASCA model,\(^ {12}\) it may well be that once people have been trained in the methodology, the discipline of the model will help them to realize that it is possible to save. The Financial Diaries identified a “pay-as-you-go” attitude, where when money is available, it is spent, reflected here and in the Finscope survey.

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\(^{11}\) In this case, household members put all their income in the same pot for household expenses, and it could have some money left or not. The income is not allocated to specific expenses.

\(^{12}\) See “Community-Based Institutions: Accumulating Savings and Credit Associations” for more details.
SMALLHOLDERS’ NEED FOR FINANCIAL SERVICES

In terms of borrowing, some similarities emerged in the motivations of urban and rural smallholders to borrow (see Figure 14). Urban smallholders mainly use loans for business-related issues, principally farming inputs (47 percent), to start or expand a business (45 percent) and to buy farming equipment. Rural smallholders use loans for address nonmedical emergencies (44 percent), buy farming inputs (36 percent), and start or expand a business (29 percent).

**FIGURE 14: REASONS TO USE LOANS**

- An emergency other than medical
- Farming expenses such as seeds or fertilizer or fishing expenses such as nets or boats
- Starting or expanding a business
- Living expenses (such as food, clothing)
- Building or rehabilitating dwelling
- Buying farming equipment or implements
- Medical expenses either planned or emergency
- Buying a dwelling to live in
- Other
- Buying livestock
- Buying household appliances, goods or furniture
- Buying a dwelling or land to rent out
- Paying off another debt
- Family celebration e.g. wedding or dowry

Source: Finscope 2014

“In terms of borrowing, some similarities emerged in the motivations of urban and rural smallholders to borrow...”
As with the barriers to saving, barriers to using credit are similar between urban and rural areas (see Figure 15). About one-third of the urban and rural samples had never thought about borrowing money (38 percent of the urban sample and 31 percent of the rural sample) and a significant number of smallholders are afraid to owe money (32 percent of the urban sample and 26 percent of the rural sample).

“About one-third of the urban and rural samples had never thought about borrowing money...”
SMALLHOLDERS’ NEED FOR FINANCIAL SERVICES

Those who use xitique and xitique geral in rural areas are motivated to save money and buy food (see Figure 16). In urban areas, survey participants want to buy household goods and save money. Most smallholders surveyed want to be part of a xitique or xitique geral group mainly because of the need to have lump sums of money and to keep their money safe.

**FIGURE 16: REASONS FOR BEING PART OF A XITIQUE AND GENERAL XITIQUE GROUP**

- To have a lump sum: 55% rural, 61% urban
- To keep money safe: 22% rural, 26% urban
- To save: 18% rural, 21% urban
- For unexpected expenses such (e.g., death): 0% rural, 0% urban
- It is expected for people in your clan/village/community: 0% rural, 9% urban
- Other emergencies: 9% rural, 29% urban
- To socialize / meet your friends: 0% rural, 8% urban
- To borrow money: 0% rural, 0% urban
- The group buys your household/farm goods: 0% rural, 0% urban
- To invest in bigger things: 6% rural, 4% urban
- You can get money easily when you need it: 6% rural, 6% urban
- To exchange ideas and information: 3% rural, 4% urban
- To increase income by lending: 0% rural, 0% urban
- For group support: 1% rural, 2% urban
- Other: 0% rural, 0% urban
- Because you could not get money or help anywhere else: 0% rural, 4% urban

Source: Finscope 2014

When facing unexpected shocks, most smallholders sell something to get money. Insurance is rarely used (only 1 percent use it when facing the death of the main wage earner, or when serious illnesses and injuries keep the main wage earner from working or strike household members). Borrowing money is somewhat used to address these risks. The lack of use of insurance and savings to cope with these risks is related partly to the lack of awareness of insurance products and the lack of insurance products aligned to the profile of smallholders.

“...The lack of use of insurance and savings to cope with these risks is related partly to the lack of awareness of insurance products...”

---

13 Xitique is the local name for a rotating savings and credit group (ROSCA), also known as a merry-go-round. Xitique geral is a system similar to Susu in West Africa, where the participant pays a fixed amount to a collector and receives her own money back, minus a commission, at regular intervals.
When dealing with expected lifecycle events, smallholders may sell something. They rarely use savings (e.g., only 1 percent use it for weddings or big celebrations) or borrow money (e.g., birth of child, 7 percent; education expenses, 8 percent) (see Table 6). When asked how they will deal with retirement, smallholders reply that they do not know or say that is not applicable. As in the case of unexpected events, smallholders do not have access to appropriate financial instruments to deal with these events.  

**TABLE 4: METHODS OF COPING WITH HARDSHIP BY SMALLHOLDERS**

<table>
<thead>
<tr>
<th>PERCEIVED RISKS</th>
<th>SELL SOMETHING (%)</th>
<th>USE SAVINGS (%)</th>
<th>CUT DOWN ON HOUSEHOLD EXPENSE (%)</th>
<th>BORROW MONEY (%)</th>
<th>CLAIM INSURANCE (%)</th>
<th>OTHER (%)</th>
<th>DON'T KNOW (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood destroying house or property</td>
<td>47</td>
<td>3</td>
<td>2</td>
<td>13</td>
<td>0</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Theft, fire, or destruction of household</td>
<td>44</td>
<td>5</td>
<td>6</td>
<td>19</td>
<td>0</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>Theft, fire, or destruction of car/vehicle</td>
<td>31</td>
<td>9</td>
<td>10</td>
<td>17</td>
<td>0</td>
<td>18</td>
<td>58</td>
</tr>
<tr>
<td>Poor harvest</td>
<td>39</td>
<td>6</td>
<td>6</td>
<td>21</td>
<td>0</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Loss of job of main wage earner</td>
<td>27</td>
<td>3</td>
<td>5</td>
<td>17</td>
<td>0</td>
<td>16</td>
<td>34</td>
</tr>
<tr>
<td>Death of main wage earner</td>
<td>25</td>
<td>5</td>
<td>6</td>
<td>23</td>
<td>1</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Pay/contribute to a funeral</td>
<td>28</td>
<td>15</td>
<td>3</td>
<td>18</td>
<td>0</td>
<td>17</td>
<td>26</td>
</tr>
<tr>
<td>Illness or accident that results in the main wage earner no longer being able to work</td>
<td>32</td>
<td>7</td>
<td>10</td>
<td>26</td>
<td>1</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Serious illness or accident of a household member</td>
<td>34</td>
<td>8</td>
<td>5</td>
<td>27</td>
<td>1</td>
<td>13</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Finscope 2014  

**TABLE 5: METHODS OF DEALING WITH ANTICIPATED EVENTS BY SMALLHOLDERS**

<table>
<thead>
<tr>
<th>WEDDING (%)</th>
<th>LARGE CELEBRATION (%)</th>
<th>BIRTH OF A CHILD (%)</th>
<th>EDUCATION EXPENSES (%)</th>
<th>RETIREMENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell assets/crops/livestock</td>
<td>56</td>
<td>52</td>
<td>50</td>
<td>63</td>
</tr>
<tr>
<td>Withdraw savings from bank</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Savings with other financial services institution</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash in another financial instrument</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cut down on household expenses</td>
<td>2</td>
<td>3</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Postpone plans to pay for something</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Use a family account</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Borrow money</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Claim insurance</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Not applicable</td>
<td>18</td>
<td>20</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Do not know</td>
<td>18</td>
<td>18</td>
<td>15</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Finscope 2014
This section details smallholder access to and uptake of traditional financial services (savings, credit, insurance) and their use of new technologies, such as mobile money services.

### SMALLHOLDERS LEVELS OF ACCESS

Financial inclusion levels across Mozambicans per main source of income illustrate that agriculture is the activity with the second highest level of exclusion (after those with no income) and with the lowest access to banks, while the waged population is the most included as observed in figure below. Of those with agriculture as their main source of income (hereafter also referred as smallholders) only 8 percent access banks (in line with CGAP’s finding that 10 percent of smallholders have bank accounts),\(^{14}\) 2 percent who access other formal services and 12 percent who access it through informal mechanisms, leaving the great majority (79 percent) unserved. When compared to the other sources of financial services, it is evident that the role of informal providers is particularly more important for people engaged in agriculture than other income generating activities.

**FIGURE 17: ACCESS STRAND BY MAIN SOURCE OF INCOME**

| Source: Finscope 2014 |

Note: Access strand indicates the level of formal financial services of the population based on the products they use. It is divided into four categories: banked, other formal nonbank, informal, and excluded.

The rural versus urban access strands below indicate a higher level of financial exclusion of smallholders in rural (80 percent) than in urban areas (68 percent), mainly due to the discrepancies in access to banks, given that only 5 percent of smallholders have access in rural areas compared to 24 percent in urban areas.

---

\(^{14}\) CGAP National Smallholder Survey, pp. 42.
“The rural versus urban access strands below indicate a higher level of financial exclusion of smallholders in rural (80 percent)...”

**FIGURE 18: RURAL ACCESS STRAND BY MAIN SOURCE OF INCOME**

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Banked</th>
<th>Other formal</th>
<th>Informal only</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Income</td>
<td>9%</td>
<td>0%</td>
<td>3%</td>
<td>88%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>0%</td>
<td>9%</td>
<td>83%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5%</td>
<td>2%</td>
<td>12%</td>
<td>80%</td>
</tr>
<tr>
<td>Own Business/Biscato</td>
<td>14%</td>
<td>2%</td>
<td>11%</td>
<td>74%</td>
</tr>
<tr>
<td>Wage</td>
<td>58%</td>
<td>0%</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Depend on others</td>
<td>6%</td>
<td>2%</td>
<td>13%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Source: Finscope 2014

**FIGURE 19: URBAN ACCESS STRAND BY MAIN SOURCE OF INCOME**

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Banked</th>
<th>Other formal</th>
<th>Informal only</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Income</td>
<td>17%</td>
<td>0%</td>
<td>17%</td>
<td>66%</td>
</tr>
<tr>
<td>Other</td>
<td>33%</td>
<td>1%</td>
<td>18%</td>
<td>47%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>24%</td>
<td>1%</td>
<td>7%</td>
<td>68%</td>
</tr>
<tr>
<td>Own Business/Biscato</td>
<td>36%</td>
<td>5%</td>
<td>14%</td>
<td>45%</td>
</tr>
<tr>
<td>Wage</td>
<td>83%</td>
<td>2%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Depend on others</td>
<td>29%</td>
<td>3%</td>
<td>12%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: Finscope 2014
SMALLHOLDERS’ ACCESS TO FINANCIAL SERVICES

Looking at the time taken to reach financial service access points, it is observed that ease of access to the four access points considered is the same for rural and urban dwellers, i.e., both find it easiest to access moneylenders and it is hardest to access other financial services (see Figure 20). Furthermore, the means of transport used by rural and urban dwellers is the same respective to each of the financial service access points. Moneylenders are the only ones that can be reached on foot, and all the other access points require public transport, further inhibiting access given the additional associated cost.

FIGURE 20: DISTANCE TO REACH THE NEAREST SELECTED FINANCIAL SERVICE ACCESS POINTS

On average urban smallholders take less time to reach these same points than those living in rural areas. While in those living in urban areas can reach all financial service access points within 55 minutes, rural smallholders can only reach an informal provider (moneylender) within that same time. Other access points such as bank, ATM and other financial institutions are reached in more than an hour by more than 60 percent of rural smallholders, on the other hand less than 29 percent of urban smallholders take more than an hour to reach a formal provider.

“On average urban smallholders take less time to reach these same points than those living in rural areas....”
ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER HOUSEHOLDS IN MOZAMBIQUE

Chipindu is a farmer who is 50 years of age, and lives in Nkaliama village in Tete Province. Nkaliama is 48 kilometers from an out-grower buying center, where a bank ATM is installed. Chipindu sells tobacco worth MZN 50,000 each season to the out-grower and he gets his payment through a bank account. He uses an ATM to withdrawal cash to meet his expenses.

**FIGURE 21: MR. CHIPINDU’S JOURNEY TO A BANK ATM**

Chipindu has three potential means to travel:
1. Bus - Very rare, cost MZN 400, take 4 hours
2. Bicycle - Frequent, cost MZN 200, take 7 hours
3. Walk - Frequent, cost MZN 400, take 2 days

There are two levels of difficulties that Chipindu faces to access to ATM and cash withdrawal. Going from home to access an ATM:
> Cycling for 7 hours or walking for two days
> Spending MZN 200 to 400
> Spending MZN 50 to 100 to hire someone to look after his farm work or other needs back at home
> Prone to the risk of getting robbed on the way

When using ATM for cash withdrawal, the transaction may not be successful:
> No transaction as the ATM server is down
> No cash in the ATM
> Card does not work because it has expired
> Card is blocked because of usage of wrong PIN
> Cannot withdraw more than MZN 15,000 in one day


Note: Based on a research conducted by ICC/Microsave to FSD Moç for a commercial bank in Mozambique using customer journey analysis with farmers.
SMALLHOLDERS’ ACCESS TO FINANCIAL SERVICES

SMALLHOLDERS PRODUCT UPTAKE

The use of bank products by smallholders indicates that, of the formal financial services accessed, a current account is the most common product in both rural (31 percent) and urban areas (45 percent) (see Figure 22). The preference of product between rural and urban smallholders starts varying from their second choice of product, where rural smallholders demonstrate a preference for savings options (e.g., savings account, savings plan) while urban smallholders demonstrate a preference for debit cards, salary accounts, and credit products.

FIGURE 22: BANK PRODUCTS USED AND TOP 5 REASONS FOR HAVING OR NOT HAVING A BANK ACCOUNT (RURAL, URBAN)

In terms of savings, smallholders do not save much; 74 percent do not save either formally or informally. Smallholders save more in rural than in urban areas, a difference of 6 percentage points. Saving informally (12 percent rural, 8 percent urban) and saving at home or in kind (13 percent rural, 7 percent urban) are drivers for increased saving patterns in rural areas, particularly saving at home, which might be a result of in-kind savings habits of rural dwellers.

Source: FinScope Consumer Survey Data 2014
Access to credit is extremely low, with only 8 percent of smallholders accessing it. Credit is primarily available from family and friends (5 percent) and formal credit providers (3 percent). Surprisingly, less than 1 percent of smallholders use informal credit products. Findings from the Smallholder Survey indicate a very low use of informal services. Contrary to savings, access to credit is higher in urban than in rural areas, but only by 3 percentage points; this is mainly influenced by urban smallholders’ ability to access formal credit (7 percent).
Figure 22 lists the reasons why smallholders have or do not have a bank account. Overall, reasons for having and not having a bank account are the same in the FinScope Data and Smallholder Survey. Reasons for having a bank account are associated with smallholders’ need to save and accumulate safely, while reasons for not having a bank account are associated with smallholders’ low levels of income, distance and transport costs to reach a bank, and their limited understanding of how banks work. As seen in Figure 22, the driver for having a bank account is to keep their money safe both in rural (23 percent) and urban areas (58 percent), with a higher magnitude in urban area. “Not having enough money” deters smallholders from having a bank account.

Remittance services are also used by very few smallholders, though more smallholders send and receive money than use savings or credit products. Approximately 6 percent of smallholders send money, and 7 percent receive money, both of which are driven by domestic transfers (see Figure 25). Remittance use is lower among rural than urban smallholders for both sending (5 percent rural, 9 percent urban) and receiving money (6 percent rural, 15 percent urban). The most frequently used remittance channels are relatives or friends, followed by banks. The use of mobile banking was still not felt in 2014 when the FinScope survey was conducted. It also did not feature in the smallholder diaries or the National Survey, although both found at least some awareness of the concept. This is important because M-Pesa in Kenya was originally driven by a very high need to send money from urban to rural areas. This means that mobile money operators need to find other levers to encourage use as there are few remittance transfers from urban to rural areas and vice versa.

**FIGURE 25: REMITTANCE USE AND CHANNELS**

<table>
<thead>
<tr>
<th>Remittance Channels</th>
<th>(Rural, Urban)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Send Money inside Moz</td>
<td>6% (5%, 9%)</td>
</tr>
<tr>
<td>Send Money outsider Moz</td>
<td>1% (1%, 0%)</td>
</tr>
<tr>
<td>Receive Money inside Moz</td>
<td>7% (6%, 15%)</td>
</tr>
<tr>
<td>Receive Money outsider Moz</td>
<td>1% (1%, 2%)</td>
</tr>
</tbody>
</table>

Source: ICC, based on Finscope 2014

“This means that mobile money operators need to find other levers to encourage use as there are few remittance transfers from urban to rural areas and vice versa...”
Smallholder use of **insurance services** is almost nonexistent. Smallholders in urban areas do not use any form of insurance services, and only 1 percent of smallholders use other formal insurance services in urban areas such as medical aid. Nonuse of insurance services may be associated with limited distribution of insurance services and limited awareness of its existence. Factors that may deter use of insurance products include the lack of microinsurance products that fit the needs and profile of low-income population, including smallholders.

**FIGURE 27: USE OF INFORMAL SERVICES**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xitique</td>
<td>9%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>General xitique</td>
<td>7%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Savings and Credit Groups</td>
<td>1%</td>
<td>1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Funeral association</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Informal family group</td>
<td>0.4%</td>
<td>0.0%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

**Source: FinScope Data 2014**

As noted in Figure 23, there are more smallholders using informal services (12 percent) than there are smallholders using banks (8 percent). A look at the informal service use patterns shows their preference for xitique both in urban (7 percent) and rural areas (9 percent). While the second most used informal service in urban areas is xitique geral (2 percent) in rural areas the second most used informal service is from a savings and credit group (1 percent). The Smallholder Survey corroborates the finding on informal services use, with 17 percent of smallholders having used xitique, 12 percent having used moneylenders, and 6 percent having used money guards. Savings providers (xitiques and money guards) are used more frequently than credit providers (moneylenders).

Although not clearly identified in the 2014 Finscope research, there is a growing use of ASCAs, based on the latest ASCAs report and the increased promotion of ASCA groups in development partners’ programs. In the Financial Diaries, 9 percent of respondents in Rapale sample participated in ASCAs. The National Survey indicated a participation rate of 17 percent. Data are not easy to obtain, but a recent survey indicated that some 300,000 people participate in ASCAs.

**FIGURE 28: HOW XITIQUE AND XITIQUE GERAL WERE USED**

<table>
<thead>
<tr>
<th>Service</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saved it</td>
<td>26%</td>
<td>39%</td>
</tr>
<tr>
<td>Bought food</td>
<td>19%</td>
<td>39%</td>
</tr>
<tr>
<td>Bought household goods</td>
<td>23%</td>
<td>56%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Paid debts</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Bought stock for business</td>
<td>11%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Source: FinScope Data 2014**

15 Report to be published by FSDMoç in early 2017
SMALLHOLDERS’ ACCESS TO
FINANCIAL SERVICES

Figure 28 shows that in rural areas xitique is driven by the need to respond to the seasonality of income, such as buying food and paying debts, and not so much for acquiring domestic assets as in urban areas.

Digital financial services are rarely used, though they could be a powerful tool for financial inclusion, given the near impossibility for banks and other formal financial institutions to establish a physical presence sufficiently close to smallholders. The ability to store value in a mobile money account would satisfy the need to save money in a safe place and having only small amounts to save would not be a barrier to opening such an account. The National Survey and the Financial Diaries investigated the use and perceived importance of mobile phones to smallholders, with similar results. Phones are viewed principally as a means of communication, with very few respondents (12 percent in the National Survey) indicating an understanding of its potential use as a means of accessing financial services. Only around 45 percent owned a mobile phone, and only 55 percent had used one in the past year. Of the Financial Diary respondents, only 21 percent had heard of mobile money, and none had used it over the year of data collection. Given the strongly identified need to save and keep money safely, the use of a mobile phone to store value could be an important driver in promoting digital financial services.

A further constraint, even assuming that issues of network coverage and the ability to charge a phone are overcome, is the need for a functioning network of agents with enough liquidity and the possibility to develop a profitable business.

Banking agents could be a complementary element in a new financial landscape. When the Finscope Survey was conducted, there was no framework for banking agents. The 2015 regulation issued by BM establishes the terms and conditions under which banks and microbanks can extend their activity through banking agents and reduce their expansion cost. The banks’ challenges so far in implementing agency banking under this regulation are related to the eligibility criteria of agents and the nonexclusivity of agents. Banks are finding it difficult to engage enough agents that meet the formalities and documentation requirements. The nonexclusivity clause states that banks cannot sign exclusive contracts with agents, allowing for two or more banks to use the same agents. Some banks fear that this clause may lead to some conflicts of interest as agents may favor one bank over another.
In summary, a few key points on smallholder’s access to financial services emerge from recent research.

1. After those with no income, agriculture is the segment with the highest level of financial exclusion, while the salaried population has the highest levels of inclusion.

2. Smallholders’ financial inclusion is driven primarily by informal services, as 12 percent of them access informal services, compared with 8 percent who access banks and 2 percent who access other formal services.

3. The urban bias is also verified in smallholders’ financial inclusion, with 32 percent inclusion levels of urban smallholders compared to 20 percent inclusion of rural smallholders.

4. The urban bias is also observed in the physical outreach of financial institutions. It is easier for rural smallholders to reach an informal access point (moneylender) who can be reached in less than an hour, while it takes less than an hour for an urban smallholder to reach either informal providers or formal access points (bank, ATM, other financial institutions).

5. Product uptake among smallholders is highest for remittance services (7 percent), credit (3 percent), and savings (2 percent). The use of insurance is almost nonexistent, as only 1 percent in urban areas use insurance and a negligible number use it in rural areas.

6. Drivers for using both formal and informal services are associated with smallholders’ need to save money and to save it safely.

7. ASCAs are used successfully and, where they have been introduced, are highly valued as a means of saving.

8. Few smallholders have heard of mobile money and most lack the essential elements to access mobile financial services, namely a mobile phone and identity documents.

“Product uptake among smallholders is highest for remittance services (7 percent), credit (3 percent), and savings (2 percent)...”
KEY PLAYERS IN ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER FARMERS

This section describes the key organizations that interact with smallholder farmers in their financial transactions, organized approximately in order of their relative importance to smallholders.

Note that there is frequently more than one player enabling the services. Banks, for example, support payments to farmers by out-growers, and mobile money can link with ASCAs.

OVERVIEW OF FINANCIAL SECTOR

Mozambique has a dual financial system consisting of formal and informal institutions providing products and services to meet the various financial needs of the population. The formal financial sector is divided into four main categories. Three are supervised by BM—credit institutions, financial companies, and capital market institutions—while the Institute of Insurance Supervision of Mozambique (ISSM) supervises insurance and pension market institutions (see Figure 29). Financial inclusion efforts are mainly led by credit institutions and to a lesser degree by insurance and pension institutions, as highlighted in Figure 29.

FIGURE 29: CATEGORIES OF FINANCIAL INSTITUTIONS AND RESPECTIVE SUPERVISORY AUTHORITY

<table>
<thead>
<tr>
<th>Bank of Mozambique</th>
<th>Institute of Insurance Supervision of Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Institutions and Financial Companies (Instituições de Crédito e Sociedades Finaceiras)</td>
<td>Capital Market</td>
</tr>
<tr>
<td>Credit Institutions</td>
<td>Capital Market Institutions</td>
</tr>
<tr>
<td>Financial Companies</td>
<td>Insurance and Pensions Market Institutions</td>
</tr>
<tr>
<td>Banks</td>
<td>Insurance Companies</td>
</tr>
<tr>
<td>Microbanks</td>
<td>Insurance brokers</td>
</tr>
<tr>
<td>Credit Cooperatives</td>
<td>Social Security Institutions</td>
</tr>
<tr>
<td>E-Money Institutions</td>
<td>Pension Funds</td>
</tr>
<tr>
<td>Leasing Companies</td>
<td>Pension Funds Management Companies</td>
</tr>
<tr>
<td>Investments Companies</td>
<td>Stock Exchange</td>
</tr>
<tr>
<td>Saving and Credits Organizations</td>
<td>Stock Operators</td>
</tr>
<tr>
<td>Microcredit Operators</td>
<td></td>
</tr>
<tr>
<td>Money Exchange</td>
<td></td>
</tr>
<tr>
<td>Brokerage Companies</td>
<td></td>
</tr>
<tr>
<td>Venture Capital Companies</td>
<td></td>
</tr>
<tr>
<td>Shopping Administrators</td>
<td></td>
</tr>
<tr>
<td>Corporate Group</td>
<td></td>
</tr>
<tr>
<td>Credit Card Issuers</td>
<td></td>
</tr>
</tbody>
</table>

Source: ICC based on BM
In addition, there are other semi-formal financial institutions that are not supervised or regulated, such as community-based organizations (e.g., ASCAS), individual agents (e.g., moneylenders), and market linkage institutions (e.g., out-grower companies). There are also other actors that provide financial assistance to smallholders, including commercial advances for traders and producers and government funds, discussed in more detail in the subsequent sections.

Mozambique is a large country in which the physical outreach of service providers greatly influences its population’s ability to access financial services. Figure 30 illustrates the current geographic distribution of all service providers against the distribution of smallholders along the country. The map shows an inverse relation between the distribution patterns of service providers in relation to smallholders: the presence of service providers is lower where the incidence of smallholders is greater. Whereas Zambézia province has the highest incidence of smallholders (22 percent) and Maputo province the lowest incidence (4.6 percent), Zambézia has only 4 percent of the national total of service providers while Maputo has 55 percent. This points to clear opportunities in Zambezia and Nampula provinces for service providers that intend to develop financial solutions for smallholders.

FIGURE 30: FORMAL FINANCIAL SERVICE PROVIDERS VERSUS DISTRIBUTION OF SMALLHOLDERS, PER PROVINCE

The sections below describe in detail the status of the different categories of institutions that provide financial services.

Source: ICC based on CGAP Smallholder Survey and BM Data
MOÇAMBIQUE.

-working for Agronegócios para o Desenvolvimento company and will be managed by Japanese technicians.

The card and system were developed by a Japanese company and will be managed by Japanese technicians.

Nampula provinces.

2016, it was rolled out to Sofala, Zambézia, and Tete provinces (Nampula, Tete, and Manica) and works with 14,000 farmers, providing $2 million in credit per year. It gives seeds (for free), chemicals, sprays, technical assistance, and advance money for land preparation and planting.

Olam began operating in Mozambique in 1999. It primarily works with cashew, cotton, rice, and oils (soybean and palm). In cotton, Olam operates in 14 districts of three provinces (Nampula, Tete, and Manica) and works with 14,000 farmers, providing $2 million in credit per year. It gives seeds (for free), chemicals, sprays, technical assistance, and advance money for land preparation and planting.

Mozambique Leaf Tobacco (MLT) is part of Universal Leaf Tobacco, which operates in 35 countries. Its headquarters are in Tete, and it works with small farmers in Tete (+/- 55 percent), Niassa (+/- 35 percent), Zambezia (20 percent), and to a much lesser degree in Manica (1 percent). It is currently working with about 125,000 farmers who sell about 90,000 tons of tobacco. MLT provides about $40 million per year in inputs to farmers (fertilizers, chemicals, seeds) and technical assistance. These inputs are then discounted at the time of harvest, when MLT purchases the tobacco leaves. No interest is charged to farmers. MLT pays about $100 million annually to farmers. However, because farmers have limited access to banks, MLT generally pays the farmers in cash, raising security issues for the company and the farmers. Often MLT has to send payments by helicopter or plane to areas where there is no access by road. Although MLT is working with several banks (ABC, BTM, BCI, Eco Bank, Standard Bank) for its daily operations, the company has not yet managed to resolve the problem of payment in cash to farmers.

Out-grower financing is an important source of finance for smallholders who sell to large buyers, particularly commercially driven smallholders. It has also been an important source of training in good agricultural practices. Due to the risks associated with out-grower financing, such as “side selling” or the farmers’ lack of loyalty to the buyer who provided financing to them (mostly in-kind or inputs), these schemes are operating only in well-organized value chains (VCs) with dominant buyers controlling purchasing in a given region. In Mozambique, out-grower financing is more prevalent in cotton, sugar, and tobacco VCs, although there is also some out-grower financing through seed companies. The main companies providing out-grower finance in the VCs are JFS, OLAM, and MLT.

FAO INPUT SUBSIDY SCHEME

As of October 2016, smallholders and emerging farmers are beginning to benefit from the use of electronic cards to acquire subsidized agricultural inputs to enable them to improve their production.16

An e-voucher system, developed by the UN Food and Agriculture Organization (FAO) and implemented by the Ministry of Agriculture and Food Security, with support from FAO, will support some 25,000 farmers to access better seed, fertilizer, and pesticides, via a network of previously selected and trained agricultural input dealers. Provincial agriculture services identify and register agrodealers and FAO-funded organizations provide training. In addition to enabling farmers to buy inputs, the system will enable FAO to monitor who bought what and in what quantities, which will in turn enable it to monitor subsequent production and revenue. This will create valuable data for future decision-making, regarding the types of products to be provided under the scheme and any additional training or extension requirements.

In the medium term, the electronic card will help to channel other forms of assistance, whether from the government, FAO, or other organizations that support the agricultural sector. Moreover, since holders are able to load value onto the card, the card can also be used as a savings mechanism. The stored value can be used only at the input dealer and only for prespecified products.

The design of the electronic card and the system takes into account conditions in rural areas. The technology is relatively simple—a tablet and a card reader for the agrodealer, with a solar panel for charging the tablet. And for identification, either an ID card, “cédula pessoal”17 or an electoral card are accepted.

The system was tested in Manica province during the 2015–2016 agricultural season and benefited more than 12,500 farmers. In 2016, it was rolled out to Sofala, Zambézia, and Nampula provinces.

The card and system were developed by a Japanese company and will be managed by Japanese technicians working for Agronegócios para o Desenvolvimento de Moçambique.

16 Emerging farmers are smallholder farmers who have a higher level of technical knowledge and are more receptive to improved technology than traditional smallholders. Consequently they usually cultivate larger plots. They tend to specialize in specific crops, relying on irrigation and other types of water control, and tend to market their production surplus (FAO Glossary).

17 Cédula pessoal is an identity document usually issued to a child before an identity card (BI) is issued. Nowadays, it is less used and a BI is issued even to a child.
João Ferreira dos Santos (JFS) was founded in Mozambique in 1897. JFS has been involved in almost all agriculture activities (both in production and agroprocessing), in particular: cotton, rice, sisal, cashew nut, tea, citrus, tobacco, maize, sesame, soya. JFS was involved in the development of the Mozambican out-growing models and has been operating them since they were deployed. The company operates in eight districts of Niassa province, working with approximately 35,000 small farmers, providing them training and all necessary farming inputs (in a fully subsidized microcredit model). The annual credit value varies from $0.5 million to $1 million (with an annual default rate of less than 10 percent), and it purchases cotton from farmers, spending about $10 million in cash, without any middlemen. JFS interventions help to significantly reduce the perceived risks in agriculture (quality inputs, extension services, equipment, market information, guaranteed market) and provide a potential large client base (more than 30,000 smallholders) that is concentrated around the agriclusters. Nevertheless, no formal financial institution is serving the cotton smallholders in Niassa province.

Portucel Moçambique is a Mozambican company founded in 2009 by the Navigator Company (formerly Portucel Soporcel Group), which is setting up Mozambique’s largest integrated forestry project to produce paper pulp and energy. In 2009 and 2011 the company was granted permits by Mozambique’s Council of Ministers to use up to 356 thousand hectares of land over a renewable period of 50 years, for what is regarded as a project offering vast social and economic benefits for Manica and Zambezia provinces, and for the country as a whole. Once it has established its forestry operation, Portucel Moçambique will build a mill in the country to process eucalyptus into paper pulp.

Portucel has been implementing a Social Development Programme (SDP) since 2015. The program has two main objectives: improve food security and quality of life of smallholders. To date SDP has reached 5,400 families through the agricultural extension system, providing access to seeds. It has also increased the production of cassava cuttings and sweet potato shoots for distribution to communities, helped households reduce post-harvest losses through training and sharing of good practices, and helped prepare land for planting community forests. This project is expected to benefit about 25,000 families with improved food security, agricultural VCs, and links to markets.

Mozfoods is a Mozambican company that has invested in agricultural production in Mozambique, since 2004, with the objective of growing, supplying, and trading agricultural goods produced by farmers, including smallholders. Mozfoods’ mission is to contribute to the economic and social development of Mozambique through the creation of commercially sustainable food industries that are focused on the consumer, which stimulates the growth of Mozambican agriculture. Mozfoods has invested more than US$45 million in its operations in Mozambique.

Mozfoods employs some 2,200 people. It is focused on the construction and rehabilitation of the agricultural infrastructure, in the export of fresh produce, and the production of certified rice seed and other cereals.

Empresa de Comercialização Agrícola (ECA), Agricultural Marketing Company is a food processing company that works with about 5,000 small producers, linking them to the market. The company provides farmers with inputs (seeds, fertilizers, etc.) on credit and guarantees support in extension services to enable them to produce better maize, peanuts, and soybeans. The project was founded in 2010 with capital from the Beira Agricultural Development Corridor Catalytic Fund, which is managed by AgDevCo. ECA is in Catandica, Bárue district, and Manica province in the central region of Mozambique.

Export Trading Group (ETG) is a multinational agribusiness with operations in 26 African countries. It provides links to several farmer associations so their smallholder members can sell to major markets. In Manica province, nearly 4,700 farmers have received advances from ETG through farmers’ associations to purchase sesame and pigeon peas from their members, which they then sell to ETG at an agreed-upon higher price, generating a new market. The arrangement gives ETG a guaranteed source, and allows the association to secure a new market for its produce. To meet the demand of a guaranteed buyer, the association produces higher volumes and at improved quality. The ripple effects are significant. Farmers do not pay any interest on these loans and they gain the buyer’s trust for potential future business transactions.

Recently, a public-private partnership between Mozambique and the United States through USAID has launched 23 agricultural business centers that aim to revitalize the production of small farmers in central and northern Mozambique, reduce poverty and malnutrition, and contribute to improving food security. The centers, known as “3i Farmers Empowerment Hubs,” are managed
KEY PLAYERS IN ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER FARMERS

by ETG, which participates with the largest share of the financing arrangement and favors the implementation of marketing stores of agricultural technologies. The project is valued at approximately $30 million over two years (euro 26 million) and is expected to give 22,900 farmers opportunities to sell or store seed grains and legumes for free for three months, analyze the fluctuation of market prices, and access financing. With this facility, farmers can see price changes over time and sell from their storage at the time they choose, over the three months of storage.

The constraints unanimously pointed out by the out-grower companies are as follows:

> Most Mozambican farmers do not have a commercial farming culture. Farmers hesitate to take risks and are slow to adopt new technologies. They are highly resistant to change and they have a short-term perspective, opting to buy cheaper inputs that will result in lower quality and quantity of production rather than investing in quality inputs to reap a bigger and better production. They do not have a long-term vision, due in part to the uncertainty in the sector and the vulnerability of their position.

> Farmers do not have access to warehouses in which they can store their products, so they end up storing them under very rudimentary conditions, which affects the quality of the final product, thereby lowering potential income.

> There are constraints related to physical access both in terms of delivering inputs to farmers and in taking farmer’s products to markets.

> Communication between off-takers and farmers can often be challenging, particularly when negotiation price and understanding expected product quality. Smallholders face challenges in supplying products that have a consistent quality and accessing information about market prices.

> Farmers are paid in cash because few of them have access to banks. As a result, most smallholders don’t a credit history with a financial institution that would allow financial service providers to assess their credit worthiness.

> The companies also mention the lack of financial education of small farmers as a barrier to their access to financial services. For example, many farmers do not accept payments if they are not made in cash, mainly because they live far away from cash-out points.

> Although the law does not limit agriculture development, it does not help either, particularly for crops such as cotton and sugar that do not have a development policy. For example, legislation to develop new varieties of seed is very bureaucratic, and it is not easy to obtain approval to use these new varieties.

Other important players in agricultural production marketing have chosen not to provide inputs and instead work with farmers’ associations, some of which have become significant players in the VC and can even access bank finance. Associations represent an important channel for good agricultural practice training and financial education. OLAM works partially in this way, as does Cargill and ETG.

COMMUNITY-BASED INSTITUTIONS: ACCUMULATING SAVINGS AND CREDIT ASSOCIATIONS

The government recognizes the importance of ASCAs as a form of financial inclusion, as shown by the support for ASCAs provided by Economic Rehabilitation Support Fund (FARE)19.

ASCAs are currently providing extensive financial services in rural areas. Typically, 15–30 people from the same community, the group meets regularly and saves a fixed amount and members have the option of borrowing from the fund. At the end of the typical 12-month cycle, the funds are returned to the members, together with a share of the interest that borrowers have paid. Although there is no data indicating how much of the savings and credit are directed to agriculture, it is safe to say that a significant part of ASCAs members have agriculture as their main activity. Another key characteristic of most ASCAs is that they include a social fund to which members are obliged to contribute to support the members during unforeseen events such as illness and funerals. Given that unforeseen events present major problems for smallholder farmers, this is a very valuable addition to the range of services.

FARE reported that in 2014, there were a total of 18 organizations promoting ASCAs, compared to 21 in 201220. However recent research commissioned by FSD

19 Fundo de Apoio a Reabilitação Económica in portuguese
20 FARE (VII Fórum de Operadores de Grupos de Poupança e Crédito Rotativo-PCRs), March 2014.
Moçambique, yet to be published, identifies 25 promoter organizations. In fact, it is likely that there are even more than this as several NGOs have been incorporating the promotion of this methodology in their community support programs.

The sector is not well-organized and reliable data is difficult to come by. However, this is partly the consequence of one of the key success factors of ASCAs: as they are informal groups, once they are trained, they do not need any external support. Most of the promoting organizations have a regional focus, although there are a few with national coverage such as Gapi, Kulima and World Vision. According to FARE, Ophavela continues to be the major player in the north of the country. It covers a total of 18 districts of which 15 are in Nampula province. Magariro is major promoter in the central region covering a total of 49 districts in Zambézia, Manica and Sofala provinces. In the south provinces, Alfalite is the major promoter covering a total of 8 districts in Inhambane, Gaza and Maputo.

Data from FARE’s presentation in the ASCAs 7th Forum in 2014 (see Table 7) show that the number of clients grew from approximately 65,000 clients in 2012 to 227,979 clients in 2014, growing almost four times more in a period of 2 years; estimates from 2015 put membership at nearly 300,000. Total savings also grew significantly during this period, from about MZN 27 million in 2012 to MZN 363 million in 2014.

TABLE 6: ASCA’S NATIONAL PORTFOLIO (2014)

| Total numbers of ASCAs | 12,481 |
| Number of members | 227,979 |
| Active members | 76,201 |
| Accumulated Savings (000 Mt.) | 362,980,607 |
| Active Savings | 241,186,962 |
| Active Credit | 140,296,924 |
| Retained Income | 73,103,045 |
| Social Fund | 25,384,222 |

Source: Finscope 2014

Gapi and GIZ are currently providing assistance to ASCAs promoters. Gapi supports ASCAs in all provinces except Inhambane, while GIZ’s initiative is focused in Sofala, Manica and Inhambane provinces. Gapi is assisting a total of 520 ASCA groups, providing them with access to markets, business management skills and linkage to financial institutions. So far, Gapi has established ASCAs’ linkages to BCI, BTM and Cooperativa de Poupança do Limpopo. Gapi also plans to assist ASCAs to upgrade to Savings and Credit Organizations.

Through its ProEcon Project, GIZ also helps ASCAs link to formal financial institutions. So far, the project has enabled the linkage of 3,000 members of ASCA groups to the formal sector, including mobile money operators, by opening bank accounts or mobile group and individual accounts. However, the lack of mobile money agents with sufficient liquidity has presented a significant constraint to these efforts. GIZ also provides financial literacy to the groups, training and informing them about the advantages of accessing and using formal financial services.

A study of the impact of ASCAs in neighboring Malawi indicated that, compared with a control group, membership of ASCAs resulted in significantly improved outcomes including the following:

- Level of savings.
- Nutrition, measured by the number of meals consumed.
- Increased income from nonagricultural business activities.
- Increased house size.
- Increased use of fertilizer.

Despite their success, ASCAs do face some constraints. **Short savings and credit cycles.** Most savings cycles are 12 months or less, and require approximately two months at the start for savings to accumulate before credit becomes available for distribution. At the end of the cycle, members must repay their loans around two months before the accumulated savings are paid to members. In effect this creates credit cycles of 6-8 months or less, which may not align with smallholder’s crop cycles.

**Excess liquidity.** In some cases, savings vastly exceed the demand for credit, creating excessive liquidity for groups. Some groups even oblige all members to take a loan. Most of these groups keep the money in the group leader’s house with limited security, putting at risk the safety of the members’ savings.

**Banks’ limited distribution and restrictive document requirements.** ASCAs face constraints in depositing the group’s savings in a bank account, particularly in rural

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areas where most ASCAs operate. Travelling long hours to deposit large amounts of money is considered to be very risky. Moreover, despite the support provided by promoters in acquiring documents, ASCAs still face challenges in obtaining the necessary documents to open group bank accounts.

**Low levels of financial literacy.** ASCAs members have low levels of financial literacy, limiting their decisions about the choices of bank products and services that would generate more income in addition to their savings.

**COMMUNITY-BASED INSTITUTIONS: RURAL FINANCE ASSOCIATIONS**

The rural finance association (RFA) methodology was first introduced in 1998 with the creation of the Caixa Comunitária de Crédito e Poupança (CCCP) in Maputo City by IRAM. CCCP borrowed money from wholesale lenders and then made retail loans to solidary groups of five people. Later it expanded to Maputo province, Gaza, and Cabo Delgado. CCCP now operates under the name Caixa Comunitária de Microfinanças (CCOM). It operates six savings and credit organizations in Cabo Delgado, four in Maputo, and two in Gaza. It describes its target group as all people who are excluded from the banking system.

In terms of products, CCOM offers a microcredit loan for commerce and agriculture to groups of 3–5 people as well as individuals. The terms of the loans are 6–24 months with monthly interest rates between 3 percent and 4 percent. Future plans include promotion of ASCAs, financial literacy, and development of new products.

The constraints to these community-based organizations to financing agriculture include the following:

**Lack of money to finance.** They rely on loans from commercial banks to finance their portfolio. However, agriculture is a risky business and makes potential lenders wary. Moreover, RFA has to pay monthly installments on the loan, whereas the farmers normally pay only at the end of the agricultural season, when they sell their products.

**Lack of collateral.** Farmers do not have assets to use as collateral, which increases the risk of the lending.

**Lack of market and infrastructure.** Farmers are far away from markets, and the infrastructure (roads, railways, ports) makes it difficult and expensive to transport goods to markets. On the other hand, farmers often do not receive fair prices for their products, especially if the buyer goes to the farm.

**COMMUNITY-BASED INSTITUTIONS: INDIVIDUAL AGENTS**

Informal moneylenders and savings collectors are important financial sector actors. Moneylenders and savings collectors are primarily in periurban and urban areas, though they are becoming more common in rural areas. As seen on the demand-side analysis, these informal service providers are expanding smallholder’s access to financial services.

Information on informal service providers (individual agents) has been extracted from demand-side surveys, which provide an indication about the levels of use of such channels. Supply-side information is not available because most of the time these individual agents, particularly moneylenders, do not identify themselves as financial service providers.

The main constraints associated with using informal services are as follows:

**Focus on resolving short-term financial needs.** Financial services from individual agents may be appropriate for household emergencies or business cash flow. However, the high costs of capital make them impractical for long-term investment.

**High cost of service.** Clients of savings collectors must pay to save. Those borrowing from moneylenders pay 10–30 percent monthly on their loans. This level of expense makes long-term services unfeasible.

**Risk of unscrupulous agents.** It is possible that savings collectors may flee with their clients' savings. Although in the case of moneylenders the default risk falls on the lender and the informal nature of the transactions increases the possibility of moneylenders taking drastic action to recover their money from a borrower.

**Informal collateral requirements.** Moneylenders may require that borrowers leave their personal documents or even debit cards and personal identity numbers (PINs) as a guarantee for the loan.

**MOBILE MONEY OPERATORS**

Much has been written about the potential for mobile money to transform the financial landscape in rural areas. However, this enthusiasm should not blind people to the very real limitations that exist. The main mobile money operators are now well-established in urban areas, but in the rural areas, success is likely to come as a result of collaboration with other key players.
Mozambique has three mobile operators of which two offer mobile money products, mKesh and M-PESA, owned by mCel and Vodacom, respectively. The third, Movitel, is preparing to enter the market. mKesh and M-Pesa mobile money services comprise deposits, money transfers, payment of goods and services, and payment of public utilities (water and electricity). In terms of accessibility, mKesh estimates that 20 percent of its agents and customers are in rural areas compared to 30 percent of M-Pesa agents and customers—this is roughly the same rural distribution as commercial banks.

Together, mKesh and M-Pesa have recruited a total of 24,725 agents, of which about 83 percent are M-Pesa agents. The number of active agents, however, is much lower, about 50 percent. M-Pesa dominates mobile money services both in terms of number of agents and number of clients, both actual and active (see Table 8). Despite having the same urban vs. rural distribution of mobile money operators as commercial banks, mobile operators serve their clients through agents, and because they are often in the “bairros,” they are closer to the low-income population than banks are.

“The volume of deposits in mKesh and M-Pesa has increased substantially by 274 percent from 2013 to 2016, almost four times higher than three years ago. Available data do not allow for a sector or rural vs. urban disaggregation of the sector deposits volume to estimate the total deposits of agriculture or smallholders.”

TABLE 7: MOBILE OPERATORS PORTFOLIO (FEBRUARY 2016)

<table>
<thead>
<tr>
<th>Product</th>
<th>mKesh</th>
<th>M-Pesa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of agents</td>
<td>4,125</td>
<td>20,600</td>
</tr>
<tr>
<td>Number of active agents</td>
<td>N/A</td>
<td>11,600</td>
</tr>
<tr>
<td>Number of clients</td>
<td>2,600,715*</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Number of active clients</td>
<td>90,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Sector Volume of Deposits (000 Mt.)</td>
<td>37,269 (in 2013)</td>
<td>139,393 (in 2015)</td>
</tr>
</tbody>
</table>

a. Although BM data report 2.6 million clients, information from mKesh interviews report a total of 90,000 clients. mKesh reports that because of a system error that occurred in December 2015, multiple accounts were disabled.

Source: BM, mKesh and M-Pesa

The volume of deposits in mKesh and M-Pesa has increased substantially by 274 percent from 2013 to 2016, almost four times higher than three years ago. Available data do not allow for a sector or rural vs. urban disaggregation of the sector deposits volume to estimate the total deposits of agriculture or smallholders.

Regarding adequacy, mobile money services include a range of products that meet smallholders’ needs. Users need only a mobile operator phone number and ID (or voter card or “cédula pessoal”). Both operators accept very small deposits, which are appropriate to smallholders who earn small amounts of money at irregular intervals throughout the year. In addition, mKesh and M-Pesa are striving to adapt their services to rural areas through partnerships and product development aligned with the profile of the low-income market. For instance, because smallholders tend to withdraw their total balance at once, M-Pesa is currently trying to develop solutions for rural areas that factor in this behavior and nudge people to use mobile money to do their transactions instead of doing the transactions in cash. Additionally, last year M-Pesa conducted financial education campaigns for agents and customers leading to an increase in its customer base from 200,000 to 1.5 million customers.

“M-Pesa dominates mobile money services both in terms of number of agents and number of clients, …”

TABLE 8: COST, LIMITS OF TRANSACTIONS, AND ELIGIBILITY CRITERIA

<table>
<thead>
<tr>
<th>Product</th>
<th>Cost</th>
<th>Transaction Limits (MZM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit</td>
<td>Free</td>
<td>20–25,000 (per trans) or 125,000 (per day)</td>
</tr>
<tr>
<td>Transfers</td>
<td>M-Pesa: 1</td>
<td>11,600</td>
</tr>
<tr>
<td>Other: 4-160</td>
<td>2,600,715*</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Std Bank: 4-150</td>
<td>5–25,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>4–150</td>
<td>20–25,000</td>
</tr>
<tr>
<td>Mobile recharge</td>
<td>Free</td>
<td>5–2,000</td>
</tr>
<tr>
<td>Electricity Payment</td>
<td>2–5</td>
<td>From 10</td>
</tr>
<tr>
<td>Services Payment</td>
<td>Free</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Lite KYC: ID/passport/dire/refugee card/driver license for transactions up to 84,000 per annum
Full KYC: At least 1 ID with photo and fill a form for transactions up to 3,000,000 per annum
INVESTING IN FINANCIAL INCLUSION

KEY PLAYERS IN ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER FARMERS

mkesh has partnerships with BCI for ATM connection and with Moza for interoperability to be linked to bank clearing. mkesh is also working with some ASCAs promoters, such as GIZ, Ophavela, ADEM, and ADEL, to link ASCAs to mobile money services. This collaboration with ASCAs will have a direct impact on low-income populations, including smallholders, given the profile of ASCAs members.

Specific to smallholders, M-Pesa has three agreements with institutions working with small farmers to provide money transfer services. In the first collaboration in Maputo province, CCOM provides credit, ACDI-VOCA provides agricultural inputs, Cava purchases products (Piri-piri) from farmers, and M-Pesa makes the money transactions. In another partnership in Catandica, Manica province, ECA buys production from farmers, provides training in good agricultural practices, and sells inputs. M-Pesa also partners with MLT to pay its farmers. Other partnerships not directly focused on smallholders but that may increase the access of the low-income population to financial services includes a partnership with Standard Bank, which allows its clients to transfer money from a bank account to a mobile phone account. Partnerships with other banks are likely to follow.

Affordability levels also seem to be satisfactory to smallholders. The minimum amount for opening an account is 20 MT, which is in line with smallholders’ relatively low incomes. Transaction costs are also not prohibitive, and they allow smallholders to use mobile money services as often as needed.

Constraints

- Low penetration of mobile phones and even lower penetration of Vodacom and Mcel in rural areas.
- Smallholders do not usually keep their money in their mobile accounts. Once they receive the payment, they tend to withdraw their total balance at once, which lowers opportunities to use other M-Pesa products.
- Smallholders generally lack technological skills, i.e., they do not know how to use a mobile phone, and they often lack financial knowledge that would enable them to use and benefit from mobile money services.
- The weakest link in the chain is generally the agent network. Agents frequently do not have sufficient liquidity, and they themselves must have access to a bank to rebalance. This has negatively impacted the partnerships outlined above as agents have been able to perform very few transactions that are significantly below the customers’ demand.
- Current legislation does not allow mobile operators to offer savings services, which they believe could be an attractive service for the low-income population, including smallholders.
- Given that Movitel has the most extensive mobile network, the entrance of this company into the mobile money market will be a game changer. There is currently no interoperability between mobile money operators, but this is on the agenda.

Another new player in the market is Zoona, a mobile money payments service that is operator-neutral. This is likely to be a major benefit in a market where there is no interoperability between the major brands and where the market coverage of each of the main players is very different.

BOX 2: ESOKO

ESOKO is a pioneering technology company that enables businesses and smallholder farmers to communicate and transact more efficiently through the development of simple, but powerful, mobile and web tools, rich content, and a local field force to collect data from the last mile. The company uses mobile and web technology to provide farmers with vital information on how to grow their crops better, what inputs to use, where to sell, and at what price. It also enables businesses like commodity buyers, processors, input suppliers, financial institutions, and mobile operators to gain insight into what is happening in rural markets and to know their customer. ESOKO currently works in 10 countries in Africa and reaches nearly half a million farmers. It recently won Face Book’s Internet.org Africa Innovation Challenge for its mobile commerce solution.

Press Release, 4 October 2016

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22 At the time that this report was written, there wasn’t much information about the current and future plans of Zoona. Official information may be launched in early 2017.
ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER HOUSEHOLDS IN MOZAMBIQUE

In partnership with a leading MNO, Mobiles 4 All is conducting the New Users, New Insights, Better Data pilot study in Mozambique, funded by the Bill & Melinda Gates Foundation and FSD Moçambique. During the pilot, M4A participants will be surveyed regularly so that researchers can better understand their use of mobile phones and their mobile money needs. Participants will become part of the pilot’s “living data panel,” and share their data and insights in return for rewards. The pilot aims to increase phone use, incentivize information sharing, and generate bigger, richer data. As a result, mobile money operators will be better equipped to meet, predict, and influence consumers’ needs. Through the pilot, M4A aims to prove that data-driven personalized service can increase the use of mobile money.

Furthermore, the pilot will provide stakeholders with information about mobile phone and mobile money use that can be leveraged to improve these services. It will also provide stakeholders with information that will help them to adapt and expand the pilot in the future.

BOX 3: MOBILES 4 ALL: NEW USERS, NEW INSIGHTS, BETTER DATA

COMMERCIAL BANKS

Mozambique’s banking sector has been in the process of restructuring over the past four years. Numerous changes have been made, with implications in deepening smallholders’ financial inclusion still being felt. Since 2012, one bank has entered the market, bringing the total to 19 commercial banks that offer a wide range of financial products. That said, there are now fewer banks than in 2012 that have a specific mission to serve lower-income segments of the market, having reduced from four to two. ProCredit was bought by Ecobank, and Banco Tchuma was bought, renamed Banco Mais, and refocused on the corporate sector. In addition, Banco Oportunidade was bought by a FinTech, MyBucks, and refocused on salaried workers, though it has promised to continue serving its existing market segments, including farmers. BTM is currently the only bank providing agriculture value-chain finance with a focus on smallholders. However Socremo, a microfinance-oriented bank, intends to enter this market.

Moza has been actively increasing its outreach to underserved sectors of the market, through the launch of agent banking and the opening of small outlets, using containers, in markets in Maputo and Matola. However, in November 2016, Nosso Banco had its banking license revoked. The low level of deposit protection afforded by the Central Bank has created some concern among customers of other banks. Despite these setbacks, mainstream banks are now developing technologies that will enable them to reach a wider market.

Analyzing the accessibility aspect of financial inclusion, it is evident that the bias toward urban areas remains high, although to a relatively lesser degree than in 2012. In 2016, 30 percent of total access points, which includes bank branches, ATMs, POS devices, and mobile money agents, are in rural areas compared to 24 percent in 2012. Out the 619 bank branches 160 (30 percent) are outside of the provincial capitals. In relation to distribution of other access points, of the 158 districts, 98 have ATMs, 147 have POS, and 122 districts have mobile money agents.

Examining the relative number of branches to people per province, the gap between the overall population and the number of bank branches in rural areas is greater...

23 As of June 2016, BM data.
In the past, only commercial banks dedicated to microfinance effectively targeted smallholders with small loan amounts for individuals and groups. However, in parallel with the decline in the number of such banks, several commercial banks are currently implementing digital finance services, which provides an opportunity to expand their reach beyond the bricks-and-mortar model (see Box 4). Ironically a recent regulation issued by BM that puts the onus on commercial banks to open branches in unserved districts as part any expansion plans, and to obtain Central Bank authorization to close branch is likely to promote more investment in delivery models that do not involve opening bricks-and-mortar branches.
In terms of affordability, traditional banks tend to be more affordable than microfinance banks. Traditional banks charge on average 30 percent annually for agrifinance loans, while microfinance banks charge 3.5–4 percent per month, equivalent to 42–48 percent annually. However, microfinance banks are more aligned to smallholder’s asset ownership profile. Although some sort of collateral is needed for individual loans (less valuable than what commercial banks require), the group lending methodology used by microfinance banks does not require collateral. Notwithstanding this, only BTM and BOM offered credit products to smallholders, and now BOM is under new ownership and it is still not clear if it will continue to offer the agriculture product. Since the change in ownership, Ecobank (formerly Pro-Credit Bank) and Banco Mais (formerly Tchuma) have changed their orientation away from agriculture.

Tako Móvel—BCI
Tako Móvel is a BCI (Banco Comercial e de Investimentos) mobile banking solution that allows its clients to perform a number of banking transactions, including balance inquiries, money transfers, and payments. As part of its money transfer services, BCI clients can transfer money from a BCI bank account to any cellphone, allowing the owner of the cellphone to cash out the money at an ATM without having a bank account or a debit card. Through this service, money transfers can be performed within the country between a banked user and nonbanked user, in effect providing the nonbanked user access to formal financial services.

Millennium IZI—Millennium BIM
Millennium IZI is a mobile banking service available on any mobile phone that allows Millennium BIM customers to perform a number of banking transactions, such as balance inquiries, transfers, and payment, and some account management operations, such as credit card cancellation, PIN blocking, and changes from a mobile device. This solution provides increased convenience to BIM’s clients by reducing costs of transactions by eliminating the travel costs to reach a bank branch to perform these basic transactions.

Manda Mola—FNB Mozambique
Manda Mola enables FNB clients to transfer money from an FNB bank account to any cell phone, allowing the owner of the cellphone to cash out the money at an ATM, or pay for services available at the ATM without having a bank account or a debit card. Through this service, money transfers can be performed within the country between a banked user and nonbanked user; it also provides a nonbanked user access to formal financial services.

<p>| TABLE 9: COMMERCIAL BANK AGRICULTURAL LOAN CHARACTERISTICS |
|------------------|------------------|------------------|------------------|
| Commercial Banks | Eligibility criteria |</p>
<table>
<thead>
<tr>
<th>Loan Size (MZN)</th>
<th>Interest rates</th>
<th>Term length</th>
</tr>
</thead>
<tbody>
<tr>
<td>250,000 (min)</td>
<td>10–12%</td>
<td>36–60 months</td>
</tr>
<tr>
<td>250,000 (min)</td>
<td>30–35%</td>
<td>36–60 months</td>
</tr>
</tbody>
</table>

| Commercial Banks (dedicated to microfinance) | Eligibility criteria |
|------------------|------------------|------------------|------------------|
| Loan Size (MZN) | Interest rates | Term length | Business activity license, NUIT, collateral, Financial results |
|------------------|------------------|------------|
| 10,000 (min) | 3.5–4% monthly | 9–12 months (individual and group loans) | Business activity license, NUIT, collateral, Financial results |

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a. These are subsidized rates through dedicated credit lines.
b. NUIT is a unique fiscal identification number, which among others, is requested by financial institutions to open bank account and perform certain transactions.
c. DUAT = Direito do Uso e Aproveitamento da Terra (i.e., “right of use and tenure”)

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24 These refer to nominal interest rates, not real interest rates.
INVESTING IN FINANCIAL INCLUSION

KEY PLAYERS IN ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER FARMERS

Despite the greater distribution of traditional commercial banks, they do not serve smallholders, and those with a lending portfolio in agriculture serve medium to large clients operating in more organized VCs, such as cotton, tobacco, and sugar. Interviews with banks indicate that a large number of them are serving smallholders through credit lines and guarantee funds made available by government and donor funds (see Table 10).

TABLE 10: CREDIT LINES AND GUARANTEE FUNDS FOR AGRICULTURE

<table>
<thead>
<tr>
<th>Credit Lines</th>
<th>Total facility (in million US$)</th>
<th>Financing amounts (in MTs)</th>
<th>Funder</th>
<th>Partnering banks</th>
<th>Regional coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horticulture Fund</td>
<td>0.52</td>
<td>Max: 1,000,000</td>
<td>FDA</td>
<td>BIM (only)</td>
<td>South provinces</td>
</tr>
<tr>
<td>Linha de Crédito Agrícola</td>
<td>300,000–5,000,000</td>
<td></td>
<td>FDA</td>
<td>BIM, BCI, CPL*</td>
<td></td>
</tr>
<tr>
<td>PRSP II</td>
<td>1.5</td>
<td>850,000–1,325,000</td>
<td>FDA</td>
<td>BIM, BCI, Moza</td>
<td>Sofala, Manica, Zambézia</td>
</tr>
<tr>
<td>Food Security Promotion Fund</td>
<td>6</td>
<td>250,000 (min)</td>
<td>MoF</td>
<td>BTM, CCOM, Hluvuku*</td>
<td>National</td>
</tr>
<tr>
<td>PROIRRI</td>
<td>4.8*</td>
<td>250,000 (min)</td>
<td>MoF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Guarantee Funds

<table>
<thead>
<tr>
<th>Guarantors</th>
<th>Total facility (in million US$)</th>
<th>Financing amounts (in MTs)</th>
<th>Funder</th>
<th>Partnering banks</th>
<th>Regional coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FECOP</td>
<td>5.6</td>
<td>FPC+3% 5 years Grace: 1 year</td>
<td>Portugal</td>
<td>BCI, BIM, Moza</td>
<td>Nacional</td>
</tr>
<tr>
<td>Agro-Garante</td>
<td>4.7</td>
<td>500,000–1,200,000 1–4 years Grace: 6 months</td>
<td>Danida</td>
<td>BCI, BIM, Std Bank, Barclays</td>
<td>Nacional</td>
</tr>
</tbody>
</table>

* a. Exchange Rate: 1 US$ = 77 MTs. b. The total project amount is $70 million, but the component on access to finance (Component 3—Cost-sharing grant for market-led production and VC development) totals $4.8 million.

Because these credit lines and guarantee funds are operational at the time this report was written, the implementing banks were not able to report on the total number of smallholders who have benefitted from these facilities. Yet, looking at the banking credit conceded to the various economic sectors in 2013 and 2015, credit to agriculture (2 percent) has not only been extremely low, but has not grown (see Figure 33).

FIGURE 33: BANKING CREDIT PER SECTOR, 2013 AND 2015

Note: These figures do not include credit advanced by the out-grower companies.

Source: INE 2015.
Aggregate data from commercial banks indicate a similar deposit and credit growth from 2013 to 2015 (see Table 11). Deposits have grown 51 percent in two years, while outstanding credit increased 52 percent in the same period. Despite the growth of savings and credit volumes, the fact that agricultural banking credit is only 2 percent indicates that banks (including microfinance dedicated banks) are withdrawing from agriculture (or increasing in other sectors). The preference for medium- to large-scale farmers also indicate that little of the 2 percent to agriculture trickles down to smallholder farmers. Given that some of these funds are relatively new, more positive results could become apparent over the next few years.

Commercial banks point to several factors that limit their ability to service smallholders.

**Lack of business orientation.** All banks indicated that smallholder farmers do not tend to approach their agricultural activities with a business orientation, and many seem unable to transition from subsistence agriculture to a structured business. Most smallholders sell their agricultural outputs when they have an occasional surplus of their family production, and not because they intentionally planned to engage in an agricultural business. With this mindset, banks are not convinced that farmers would be able to service their loan obligations.

**Lack of entrepreneurial and technical skills.** Most smallholders have very low levels of the technical skills needed to develop their agricultural business. The limited availability and distribution of extension services limits their access to know-how and advanced technologies to guarantee the quality of their production and reassure banks that they have the capacity to service their loan obligations.

**Risk of the agriculture sector.** Agriculture is considered high risk because of its vulnerability to pests, drought,
and floods, and smallholders typically do not have access to technologies that would enable them to overcome or mitigate these risks. Coupled with limited entrepreneurial and technical skills and no insurance, banks argue that the risk profile of smallholders is high and commercially unattractive for them.

Smallholders do not meet KYC and collateral requirements. As described in the demand section, most smallholders do not meet the KYC and collateral requirements of banks; very few have ID cards and/or can satisfactorily provide proof of residence. Moreover, many do not have assets that are accepted as collateral by formal financial institutions. Many banks point to these factors as being very limiting. Despite the efforts from a few banks in supporting potential clients to obtain the necessary documents, banks report that these initiatives have been very costly and administratively burdensome.

Limited scale and demand for money. Smallholders typically have plots of 0.5 to 2 ha, and generate very small quantities of production and low returns, which makes commercial credit unviable. From the bank’s perspective, the high transaction costs associated with microloans in rural areas make the business unattractive.

Operational costs. A majority of smallholders are in rural areas where operating costs are high for commercial banks because of the lack of supporting infrastructure. Associated with this, some banks have indicated that despite BM’s efforts to persuade commercial banks to open branches in rural areas, some banks have closed rural branches because they cannot breakeven.

AGENT BANKING

Agent banking is a relatively recent option open to commercial banks to increase their outreach without having to open branches. The regulation defining their modus operandi was passed in 2015 (Notice 03/GBM/2015), and several banks are working on introduce banking agents. The technology is relatively straight forward. The main challenges are identifying and training suitable candidates as agents and promoting the service to the community. It is also necessary to ensure that the bank has trained its own staff to provide proper support to agents and customers who are accessing services through the agents. The regulation permits the agent to receive deposits, pay out withdrawals, and make transfers. Account opening and credit applications can be submitted through the agent and are passed to the nearest branch for action.

Because of the need for supervision, dealing with account opening and credit applications and ensuring liquidity, it is likely that at least initially banking agents will be within easy reach of a branch.

GIZ is funding a technical assistance project on Agent Banking Network Development, with a focus on Sofala, Manica, and Inhambane provinces. The project is under GIZ’s Intervention Area 3 Promotion of an Inclusive Financial Sector in Mozambique, which aims to increase access to and use of financial services, especially in rural areas.

The project was implemented in May 2015 with the provision of technical assistance (TA) to three partner banks: Moza, BancABC, and Banco Letshego. The overall objective of the project is to help banks expand their services to rural areas at low cost. The TA includes designing the business and operational model for partner banks, training bank staff, developing a pilot plan, designing pilot measures, identifying and training banking agents, and assisting and monitoring the pilot roll-out.

MICROBANKS

In 2016, 11 microbanks were operating in Mozambique, up from eight in 2012. Microbanks offer limited services, because the Microfinance Regulations requires microbanks to obtain authorization from BM before offering savings services to the public. BM does not authorize these operations if it considers the microbank’s internal organization and performance inadequate. Only two microbanks, CCPM and Letshego, currently mobilize deposits. This sector has been dominated by two institutions, Letshego and Bayport, which lend primarily to government workers and do not have an agricultural portfolio. Letshego has recently changed its status to a bank, but for the purposes of this report it is listed as a microbank.

In terms of accessibility, microbanks are in all provinces, though they have very limited distribution. There are only 36 branches, of which 12 belong to Letshego and 11 to Bayport, further underlining the limited importance of this sector. Microbanks, other than Letshego and Bayport, are predominantly in rural areas.
Analyzing the adequacy of their products and services, microbanks are more aligned to the income profile of smallholders, with the exception of Letshego and Bayport, which focus on salaried people (see Table 12). Until now, most of these banks have offered only credit products (microenterprise loans and consumer loans), and none offer agricultural loans. CCPM is the only microbank to offer savings to its clients, and only Letshego and Bayport offer insurance products among the group.

<table>
<thead>
<tr>
<th>FIGURE 34: MICROBANK BRANCHES, PER PROVINCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provinces</strong></td>
</tr>
<tr>
<td>Cabo Delgado</td>
</tr>
<tr>
<td>Gaza</td>
</tr>
<tr>
<td>Inhambane</td>
</tr>
<tr>
<td>Manica</td>
</tr>
<tr>
<td>Maputo City</td>
</tr>
<tr>
<td>Maputo Province</td>
</tr>
<tr>
<td>Nampula</td>
</tr>
<tr>
<td>Niassa</td>
</tr>
<tr>
<td>Sofala</td>
</tr>
<tr>
<td>Tete</td>
</tr>
<tr>
<td>Zambézia</td>
</tr>
</tbody>
</table>

From an affordability perspective, microbanks have very high interest rates, which may in the medium to long term strain the sustainability of smallholders' businesses.

Microbanks are currently serving a total of 80,208 clients, growing from 36,979 clients in 2013 (see Table 13). Though deposits have grown only by 4 percent in two years, the volume of credit has grown by 110 percent in the same period. Disaggregated data of number of clients per microbank show that Letshego alone accounts for approximately 69 percent of the total sector client base. Although data are not available to provide evidence about reasons for the growth discrepancies of deposits in relation to credit, it is highly likely that the discrepancy is motivated by Letshego and Bayport, which currently dominate the microbank market.

Some microbanks benefit from the financial and technical support provided by Gapi, a development finance institution, and through donor-funded programs. Gapi is a shareholder of four microbanks: Caixa Financeira de Caia (Sofala), Yingwe (Morrumbene e Inhambane), CPPM (Marrupa e Mandimba), and Micro Banco da Mulher (Matola). CPPM can capture only deposits and Yingwe provides only credit. Gapi intends to open five microbanks in Nampula in Ribaué, Nhamatanda, Balama, Tsangano, and Murrumbala districts. In the near future, Gapi also plans to support microbanks to connect their services to mobile money and e-banking platforms and will help them to develop new products and new technologies to reduce their operational costs.
KEY PLAYERS IN ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER FARMERS

The main constraints to operations, cited by microbanks are as follows:

> **Lack of collateral.** Smallholders are largely unable to provide real collateral.

> **Limited funds to concede credit.** While some microbanks are allowed to capture deposits from the public, others aren’t. Microbanks that unable to capture deposits have limited funds to offer credit to their clients.

In conclusion, MFIs are finding it difficult to grow to a scale where they can have an impact on the smallholder financial landscape.

**CREDIT COOPERATIVES**

According to BM data, in 2016, there were nine credit cooperatives compared to seven in 2012. The cooperatives’ physical outreach (accessibility) is very limited because they are in only five provinces: Maputo city (4), Gaza (1), Tete (1), Nampula (2), and Cabo Delgado (1).

The products that cooperatives offer appear more aligned with smallholders’ needs. They provide small loans for up to nine months and accept a guarantor instead of collateral in response to smallholders’ lack of physical assets or savings. Their interest rates (affordability) of their credit, however, are higher than those of commercial banks (see Table 14).

**TABLE 14: CREDIT COOPERATIVES FEATURES**

<table>
<thead>
<tr>
<th>Loan Size (MZN)</th>
<th>Interest rates</th>
<th>Term length</th>
<th>Eligibility criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000–5,000</td>
<td>3% monthly</td>
<td>4–9 months</td>
<td>&gt;1 year of operation</td>
</tr>
</tbody>
</table>

Credit cooperatives are currently serving a total of 1,101 clients, a decrease from 1,305 in 2013 (see Table 15). Credit volume growth has registered higher growth than deposit volume, growing at 36 percent and 11 percent, respectively. The credit cooperatives’ deposit portfolio in 2015 is a hundred times higher than microbanks’ deposit volume, although the credit portfolio is higher for microbanks than that of credit cooperatives—about three times higher in 2015. This may be associated with the fact that Letshego and Bayport focus on credit products.

**TABLE 15: CREDIT COOPERATIVES PORTFOLIO (DECEMBER 2015)**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of clients</td>
<td>1,305</td>
<td>1,101</td>
</tr>
<tr>
<td>Credit portfolio value (000 Mt.)</td>
<td>1,303,357</td>
<td>1,776,593</td>
</tr>
<tr>
<td>Volume of deposits (000 Mt.)</td>
<td>1,508,619</td>
<td>1,677,599</td>
</tr>
</tbody>
</table>

Source: Bank of Mozambique

Note that this sector includes the Cooperativa de Crédito e Poupança, the credit cooperative of Central Bank staff. The credit and deposit numbers are heavily influenced by this one institution, which does not include smallholder farmers among its members.
In terms of the adequacy of their products and services, the features of microcredit operators are more aligned to the income profile of smallholders. However, the regulatory restrictions of microcredit operators on providing savings and insurance restrict their capacity to adequately meet smallholders' opportunities, life cycle, and emergency needs. Even though the recent microinsurance regulation permits microcredit operators to act as insurance agents, most are not providing these services. Currently, one operator (Hluvuku) offers embedded credit life insurance to its clients through its partnership with EMOSE. In terms of their affordability, microcredit operators are also within the price range of microfinance banks and credit cooperatives, charging 3 percent monthly (36 percent annual) for interest.

Microcredit operators currently serve a total of 54,566 clients, a growth of 250 percent in relation to 2012 total clients (see Table 17). The credit volume portfolio has also grown substantially in the same period, at 339 percent, implying that the average amount of credit per client is higher now compared to 2012.

**Main constraints**

**Dependence on development partners.** Microcredit operators depend heavily on development partners. Because microcredit operators are unable to fund their loan portfolio through deposits, they finance their portfolio through concessional or commercial bank loans. The latter can be costly for the microcredit operators because of the interest rates applied by commercial banks.

**Lack of a credit bureau for microcredit operators.** Despite the new legislation permitting the creation of private credit information bureaus, there is currently no credit bureau that provides information to microcredit operators. As a result, they have no means of determining whether a client is also a client of another institution, which is frequently the case.

**Lack of information systems.** Many microcredit operators lack adequate management information systems (MIS) that would increase their operating efficiency, principally because of the costs associated with their implementation and maintenance. Moreover, without an MIS they are unable to provide information to a credit bureau.
INSURANCE

Mozambique has a total of 18 insurance companies, growing from 16 in 2013. Of this total, more than half (55.5 percent) dedicate their activities exclusively to nonlife insurance products, such as vehicle insurance, workers’ compensation, and property insurance, among others.

Overall, the sector’s production in terms of gross issued premiums has increased by 10.1 percent in the past three years, but this figure disguises the 20 percent growth of life insurance and slowdown of nonlife insurance in the same period, registering a growth of 5.5 percent compared to a growth of 18.8 percent in 2014. The insurance companies are mostly foreign owned; 15 of the 18 companies have foreign ownership (South African, Malawian, Portuguese, and Kenyan). EMOSE remains majority government-owned. Despite an increase in the overall number of providers, the insurance sector remains small in absolute terms: investments in 2015 totaled 15,727.1 million MZN, up 8 percent since 2014 at 14,574.3 million MZN. Total premiums the same year represented 1.6 percent of gross domestic product (GDP), up from 1.5 percent in 2014 but below the Africa region average of 2.9 percent.27

In terms of accessibility the insurance distribution remains concentrated in Maputo city and Maputo province, with very limited proximity to smallholders (see Table 18). Insurance access points include 14 head offices, 32 delegations, 30 branches, 68 border branches, and 66 brokers. In addition, the sector counts 482 insurance mediators, namely 67 registered brokers, 79 agents, and 325 promoters.28

<table>
<thead>
<tr>
<th>TABLE 18: INSURANCE COMPANIES’ LOCATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provinces</strong></td>
</tr>
<tr>
<td>Cabo Delgado</td>
</tr>
<tr>
<td>Gaza</td>
</tr>
<tr>
<td>Inhambane</td>
</tr>
<tr>
<td>Manica</td>
</tr>
<tr>
<td>Maputo City</td>
</tr>
<tr>
<td>Maputo Province</td>
</tr>
<tr>
<td>Nampula</td>
</tr>
<tr>
<td>Niassa</td>
</tr>
<tr>
<td>Sofala</td>
</tr>
<tr>
<td>Tete</td>
</tr>
<tr>
<td>Zambézia</td>
</tr>
</tbody>
</table>

---

The adequacy of insurance sector products to smallholders is low. The microinsurance regulation stipulates the maximum microinsurance coverage for the various products where the insurance for the agriculture sector must not exceed 600,000 MZM (see Table 19).

### TABLE 19: MICROINSURANCE COVERAGE

<table>
<thead>
<tr>
<th>Product</th>
<th>Maximum Coverage (MZM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>500,000</td>
</tr>
<tr>
<td>Funeral</td>
<td>15,000</td>
</tr>
<tr>
<td>Illness</td>
<td>30,000</td>
</tr>
<tr>
<td>Accidents</td>
<td>50,000</td>
</tr>
<tr>
<td>Fire</td>
<td>300,000</td>
</tr>
<tr>
<td>Agriculture</td>
<td>600,000</td>
</tr>
<tr>
<td>Poultry</td>
<td>600,000</td>
</tr>
</tbody>
</table>

Source: Notice no.3/ISSM/2015

Currently, there is only one microinsurance provider, NBC Holdings, although other financial institutions, such as commercial banks, MFIs, and mainstream insurance companies, offer microinsurance products (see Table 19). Currently there are insurance products, such as credit life, funeral, agricultural, and weather index, that satisfy various individual and business needs of smallholders. Given the low awareness of insurance needs from the supply side and the limited familiarity with insurance products on the demand side, service providers are trying to overcome these challenges by attaching meaningful insurance products to other, better-understood products with higher uptake.

### TABLE 20: MICROINSURANCE PRODUCTS

<table>
<thead>
<tr>
<th>Product</th>
<th>Premium</th>
<th>Benefit</th>
<th>Distribution channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit life</td>
<td>0.35–2.5% of disbursed loan</td>
<td>N/A</td>
<td>Commercial banks, MFIs</td>
</tr>
<tr>
<td>Funeral</td>
<td>20 MZN/month (individual)</td>
<td>2,000–50,000 MZN</td>
<td>Commercial banks, brokers, agents</td>
</tr>
<tr>
<td></td>
<td>200 MZN/month (family product)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture credit</td>
<td>4–6% of loan</td>
<td>50% of loan amount + production + commodity stock + goods in transit</td>
<td>Commercial banks</td>
</tr>
<tr>
<td>Weather index</td>
<td>15% of sum insured</td>
<td></td>
<td>Agricultural sector aggregators (cotton buying agencies)</td>
</tr>
</tbody>
</table>

Despite the existence of several microinsurance products, they are limited both in their distribution channels and the scope of current initiatives. For instance, weather index insurance has been implemented since 2012 as a pilot targeting cotton and maize smallholders, leaving other smallholders unserved. Implemented in Nampula province by Emose and Hollard Mozambique, the cotton index covers droughts, excess rain, and low temperatures and is distributed through IAM, SANAM, and OLAM. The index insurance for maize is being implemented in Manica province by Hollard Mozambique. It covers drought and excess rain and is distributed through AgDevCo. The pilot aimed to reach 129,000 farmers by 2015, but no data were available at the time of this report.

The affordability of microinsurance products is favorable for smallholders, with the average premiums ranging from 4 percent to 6 percent of agriculture credit amount. Premiums are also available in units as small as 20 MZN per month, in line with the income profile of smallholders.

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29 Rising to the Challenge of Global Development Initiatives: Case Study of Weather Index Pilot in Mozambique, Presentation by Israel Muchena (Hollard Mozambique), Microinsurance Innovation Seminar 2013.
30 Ibid.
Since 2012, the financial system has undergone significant reforms to promote increased financial inclusion. Key reforms relevant to smallholders are detailed in the following.

Through **Notice 1/GBM/2015**, BM defines the criteria for authorizing the opening and closure of bank branches. This regulation aims to ensure a proportionate distribution of the bank branch network, guaranteeing an **equitable distribution of financial services at a national level**. The proportionate criteria states that for every three new branches, the location of the first of the three branches opened must be selected from a list of rural unserved areas indicated in the regulation. The location of the other two branches is up to the bank to decide. This regulation also establishes the conditions for closing bank branches, to ensure that the bank identifies how its former clients will continue to have access to financial services.

Through **Notice 03/GBM/2015**, BM establishes the terms and conditions under which banks and microbanks can **extend their activity through banking agents**. This regulation provides clarity on who can be a banking agent and which transactions can be performed by an agent, namely the provision of cash-in, cash-out, and money transfers. Although account opening and credit applications can be submitted through an agent, these are evaluated and approved by the nearest bank branch. The challenges that banks have encountered so far in its implementation are related to the eligibility criteria of agents and the nonexclusivity of agents. Banks are finding it difficult to find sufficient numbers of agents that meet the formality and documentation requirements. The nonexclusivity clause states that banks cannot sign exclusive contracts with agents, allowing for two or more banks to use the same agents. Some banks fear that this clause may lead to some conflict of interest because agents may favor one bank over another. Despite these challenges, reaction to this stimulus has been positive, as evidenced by some banks that are planning to launch banking agents.

Considering the potential importance of mobile banking in expanding the provision of financial services to underserved areas and populations, BM has enabled the creation of electronic money institutions through **Law No. 9 / 2004 July 21**. Recently through **Notice 06/GBM/2015**, BM set measures for **protection of the funds resulting from the issuance of electronic money**, guaranteeing the security of the deposits of the users.

Law No.6/2015 allows for the establishment of privately owned credit bureaus and defines the requirements in terms of legal statute and ownership. This law allows for more types of institutions to subscribe to a credit registry.

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**REGULATORY FRAMEWORK**

*Regulatory reforms for financial inclusion are the responsibility of BM for financial institutions and of ISSM for insurance and pension companies.*

"Considering the potential importance of mobile banking in expanding the provision of financial services to underserved areas and populations, BM has enabled the creation of electronic money institutions..."
“...financial system has undergone significant reforms to promote increased financial inclusion...”

bureau. Apart from big utility companies, and shops selling on credit, this could include MFIs, microcredit operators, and other institutions that serve the lower end market. Its regulation is set under the Decree 11/2016, creating an enabling environment for local and international companies to establish private credit information systems. However, in the past, small, nonregulated financial institutions have found it difficult to provide reliable, timely data electronically.

Regarding the insurance and pensions subsector, in 2015 ISSM issued Notice 3/ISSM/2015, which set limits to microinsurance activity and established the maximum amounts to be covered per type of microinsurance product, including microinsurance for agricultural activities. This regulation provides clarity as to where microinsurance operators end their intervention, eliminating any possible unfair competitive behavior between traditional insurance providers and microinsurance providers.

On the legal framework affecting the development of the agricultural and economic sectors, the Government of Mozambique created a commodity exchange, Bolsa de Mercadorias de Moçambique (BMM), by Decree No. 36/2012 of 12 October. Its objective was to improve producers’ or buyers’ access to markets for agricultural products and boost national production and productivity in agriculture. To materialize BMM’s operations, the Government approved regulation of a warehouse receipt through Decree No. 100/2014, which can be issued by BMM or licensed entities. The certificate specifies the type, quantity, and quality of the stored goods and identifies the location of the warehouse and the name of the depositor. This document will help improve access to financial products and services by small- and medium-scale farmers or traders, as it can serve as a bank loan guarantee (up to 70 percent of the value of the production deposited in the warehouse).

Finally, Land Law, Law No. 19/97 is still perceived as a barrier to development by many local and international investors because it does not allow for the private ownership of land. Instead, people (both Mozambicans and foreigners) can apply for a license to use land, through Direito do Uso e Aproveitamento da Terra (DUAT) (i.e., “right of use and tenure”). The license is usually conceded for a period of 50 years and the license can be revoked only in cases of force majeure. Under this framework, land cannot be used as collateral differently from other countries, and this is said to limit access to financial services of the unserved population. This situation is unlikely to change in the foreseeable future.

“...is still perceived as a barrier to development by many local and international investors because it does not allow for the private ownership of land,...”
GOVERNMENT AND DEVELOPMENT PARTNER ACTIVITIES

A significant number of credit lines for agriculture originate from government and development partners, in both financial sector and agricultural development programs.

This section describes the ongoing projects with direct impact on smallholder’s access to financial services and projects that improve smallholders’ capacity to access financial services.

GOVERNMENT FUNDS

Of the various development funds being implemented by the government of Mozambique, there are currently two main funds that can benefit smallholders, and a third designed to encourage banks to open in unserved districts.

**Fundo de Desenvolvimento Agrário (FDA)** aims to strengthen the agricultural sector. Though credit is not a significant part of the fund’s activities, FDA offers credit for agricultural input distribution, processing infrastructure, and product commercialization. In terms of support for smallholder finance, FDA is committed to working with Fundo de Desenvolvimento Distrital and financial service providers to offer credit to farmers and explore microinsurance products. However, as of third quarter 2016, FDA was mired in allegations of corruption.

**Fundo de Desenvolvimento Distrital (FDD)** is a district development fund that makes a total of MZN 7 million available to each of Mozambique’s 158 districts per annum to stimulate job creation and increase food security. The fund intends to finance (i) measures to encourage local entrepreneurship, benefiting the low-income population who are economically active and do not have access to bank credit; (ii) activities of food production and marketing and the creation of related permanent or seasonal jobs, thereby ensuring the generation of income; and (iii) other actions aimed at improving living conditions, relating to the economic and productive activities of the communities. Although FDD also targets smallholders, for its inclusiveness in terms of sector coverage, there is limited data available on the number of smallholders who have benefitted from FDD. Its effectiveness has been impeded by issues associated with low management capacity, confusion over services, and extremely low repayment rates. Suggestions that these funds would be better channelled through microcredit institutions have elicited no response.

**Fundo de Desenvolvimento Rural (FDR)** began an initiative called “Um distrito, um banco” (one district, one bank) in August 2016. Led by the president of Mozambique, FDR aims to serve all district capitals of the country with at least one bank branch by 2019. This initiative will be supported by FDR under which the government is committed to creating facilities aimed at the physical deployment of banking institutions. Currently, four commercial banks—Millennium BIM, BCI, Moza, and Nosso Banco—have signed the initiative with the head of state and the president of Associação Moçambicana de Bancos (AMB). (Nosso Banco has since had its banking license revoked.) BCI and Moza opened the first branches under this scheme in December 2016.

“Suggestions that these funds would be better channelled through microcredit institutions have elicited no response...”
Driven by the need for immediate cash, smallholder farmers usually sell their produce soon after the harvest each year when markets are in surplus and prices are low. If they could hold out for a month or two, they could reap the benefit of higher prices.

In a warehouse receipts system (WRS), smallholders, associations, or traders deposit agricultural outputs into a warehouse and receive a receipt that stipulates its quantity, quality, and value at that time, based on prevailing market prices. Financial institutions can extend loans using a warehouse receipt as collateral or security. In these circumstances, the farmer would have access to funds to sustain her/himself until such time that s/he is ready to sell the commodity. Because the price rises over the months following the harvest, the price obtained when selling the product is enough to cover interest on the loan, storage costs, and insurance, and still leave a profit for the smallholder.

The process originates in a single warehouse where third-party product is securely stored based on a transparent set of rules. The process includes the owner of the product being issued with written proof of ownership (a receipt) and being able to withdraw the product at any time. He can also sell his product and transfer it to the new owner. Ultimately, a national WRS culminates in a commodity exchange with centralized systems and management processes.

What are the basic requirements for a WRS to be initiated? It starts with a willingness from suitable and reliable warehouse owners to open specific warehouse facilities for third-party storage. Each individual warehouse has to fulfil a minimum set of safety requirements. The warehouse must be independently inspected and approved based on a standard set of requirements. There should be publicized rules, including rules pertaining to storage costs, whereby any third party could store product. Rules also have to cater for the requirements of the financiers and insurance companies. Finally, a price management information system (MIS) needs to keep users informed regarding current prices. This is necessary for them to make an informed decision on storage, financing, and time to sell their product.

Such a project and system has recently been launched in Mozambique with the cooperation of industry stakeholders including the government and BMM and financed by USAID. The first warehouse receipts were issued and financed in 2015, and in 2016, despite tough local economic conditions, the roll-out phase continued with new stakeholders signing up. For more information visit www.mozwarehouse.com and www.agrifino.org.

BMM has also launched a parallel scheme with the first warehouse receipts being issued in Chokwé and Nampula.

**BOX 6: AN AGRICULTURAL COMMODITY WAREHOUSE RECEIPT SYSTEM FOR MOZAMBIQUE**

A significant part of credit lines for agriculture originate from financial sector development projects and are implemented by various development partners. Currently, there are eight ongoing finance-focused programs that total approximately $200 million allocated to projects impacting smallholder finance over the past five years (although some projects will be implemented until 2021 [see Table 21]). In addition to the aforementioned projects, a recently approved Government of Mozambique project financed by the World Bank promises to impact smallholders, as described in Box 7.
INVESTING IN FINANCIAL INCLUSION

Approved in June 2016, the Agriculture and Natural Resources Landscape Management Project 2016–2021 in Mozambique is an $80 million project of the Ministry of Land, Environment, and Rural Development that is funded by the World Bank. The project aims to integrate rural households into sustainable agriculture and forest-based VCs in the provinces of Nampula and Zambézia, covering 10 districts. The districts covered in Nampula are Rapale, Ribáuè, Mecubúri, Malema, and Lalaua. The districts covered in Zambézia are Mocuba, Gilé, Ile, Alto Molócuè, and Gurué.

The project has four components: (i) agriculture and forest-based VC development increasing smallholder and small emerging commercial farmers’ (SECF) participation in key agriculture and forest-based VCs; (ii) securing land tenure rights (LTR) and increasing natural resources resilience promotion of integrated landscape management, securing LTR at the community and individual levels, and restoration of critical natural habitats; and (iii) project coordination and management support. The implementation of this project foresees activities that will benefit smallholders through training and TA to SECFs and other key rural MSMEs agribusinesses.

Each of the 100 SECFs identified by the project will be obliged to work with 100 to 200 smallholders. The World Bank believes that this approach will generate increased sustainability of its TA and financing interventions, and that the SECFs are agribusinesses that are closer to smallholders and have the interest to continue working in agriculture. This approach is designed to guarantee the longevity and continuity of the transferred TA.

Financing Mechanism: Matching grants and partial credit guarantee scheme (PCG). The matching grant depends on the financing requests as follows:

> $5,000–100,000 will have a 50 percent matching grant
> $100,000–1 million are entitled to a 20 percent matching grant

Target emerging VCs: Poultry, soy, sesame, cashew, and pigeon peas

VC development finance will be provided through matching grants, PCG, and commercial loans. A financial service provider will be contracted to administer the Partial Guarantee Fund. Allocations are made through a competitive selection process and first come, first served basis based on demonstrated evidence of benefits to smallholders and MSMEs through business linkages as presented in a proposed business plan. The financing scheme will operate along the principles of a public-private partnership to provide concession and grant finance to market-oriented ventures.

The project aims to address both demand and supply constraints to credit for SECF and MSME agribusinesses. The project will expand access to finance and financial services for SECFs and MSMEs in the selected VCs for the following activities:

> **Acquisition of assets**, such as equipment, tractors, microirrigation, and storage units that can enable SECFs and MSME agribusinesses to (a) have an acceptable collateral for banks; (b) improve productivity, enable processing, and generate additional income; and (c) enable the provision of services to smallholder farmers (e.g., hiring a tractor or renting storage space).

> **Working capital** to SECFs and MSME agribusinesses that will enable the financing of additional and improved inputs and operating costs of machinery and other assets and thus increase productivity and incomes. SECFs can also facilitate financing to smallholder farmers/clients through either input financing or MFIs and savings and credit cooperatives.
### TABLE 21: ONGOING FINANCE-FOCUSED PROGRAMS (IN MILLION US$)

<table>
<thead>
<tr>
<th>Program</th>
<th>Funding (US$)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enhancing food security and increasing incomes in northern Mozambique</strong></td>
<td>13</td>
<td>Improve the quality of life of women and men living in Cabo Delgado province through increased food security and improved livelihoods. This will be achieved through working to increase agricultural production capacity, improving access to financial services, and broadening market opportunities for individuals and households. By taking a multi-input approach, with systemic interventions in agriculture, enterprise development, savings and credit, and community development, the project will work to address root causes rather than symptoms of food insecurity and poverty in the region. Over 6 years, the project expects to improve agricultural productivity, increase food security and the level of nutritional status, and broaden market opportunities for up to 35,000 households in 7 districts of Cabo Delgado.</td>
</tr>
<tr>
<td>CANADA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011–2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Support to agribusiness development</strong></td>
<td>18</td>
<td>Increase smallholders’ income from business through improved and market-related agricultural production. Among others, this project aims at developing entrepreneurship in agribusiness; increasing quantities and qualities of marketed produce of strategic VCs of selected commodities; and increasing investments due to improved access to credit and collaterals.</td>
</tr>
<tr>
<td>DENMARK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011–2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>INOVAGRO II</strong></td>
<td>8.5</td>
<td>Increase small-scale farmers’ revenue by facilitating sustainable change in the agricultural market in poor and rural Mozambican areas. The second phase of Inovagro widened the impact of the first phase by replicating and expanding its innovative methodology to new geographic areas, farmers, and VCs, and by deepening the impact of the market system. The project has an access to finance component, as it links formal financial institutions with targeted farmers and supports development of VSLAs. As a result, more than 2,900 small-scale farmers joined VSLAs in Cabo Delgado, Nampula, and Zambézia.</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012–2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rural Markets Promotion Programme (PROMER)</strong></td>
<td>40</td>
<td>Improve the livelihoods of smallholders in the northern region of Mozambique through promotion of pro-poor rural markets. A partnership between the Government of Mozambique, IFAD, and AGRA, PROMER aims to improve market infrastructure through investments in rural feeder roads and district and provincial markets, increase access to financial services through promotion of ASCAs, and improve market transparency as a result of a regional market information center in Nampula.</td>
</tr>
<tr>
<td>IFAD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013–2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial sector deepening Mozambique (FSDMoç)</strong></td>
<td>16</td>
<td>Improve access to financial services for micro, small and medium enterprises (MSMEs) and smallholder farmers and households. FSDMoç acts as a facilitator supporting the development of a more inclusive financial sector by intervening at the macro, meso, and micro levels.</td>
</tr>
<tr>
<td>DFID</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014–2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Innovation and Demonstration Catalytic Fund, Integrated Growth Poles Project</strong></td>
<td>100</td>
<td>Support SMEs and smallholder farms in Nacala and the Zambezi Valley by improving access to technology and markets, and finance for better linkages with the extractive sector and VC industries. One of its interventions aims to link small farmers to agribusiness VCs based on inclusive business models, where smallholders, individually or in associations, enter into partnerships with agribusiness companies to facilitate access to new or existing markets.</td>
</tr>
<tr>
<td>World Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014–2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. The funds indicated in the table refer to the total project amount and not to the amounts for the project’s smallholder focus components.
GOVERNMENT AND DEVELOPMENT PARTNER ACTIVITIES

AGRICULTURAL DEVELOPMENT PROGRAMS

In addition to finance-focused programs related to agriculture, there are several programs devoted to agricultural development, which in many ways address the constraints identified by financial service providers, including productivity, access to technologies, access to good agricultural practices, business skills development, and the like. Most of these programs are Government of Mozambique projects financed by different donors (see Table 22).

**TABLE 22: ONGOING AGRICULTURE-FOCUSED PROGRAMS (IN MILLION US$)**

<table>
<thead>
<tr>
<th>Program</th>
<th>Funding (US$)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers income support</td>
<td>4.3</td>
<td>Support cashew production and productivity in Inhambane province.</td>
</tr>
<tr>
<td>IRELAND</td>
<td></td>
<td>2011–2016</td>
</tr>
<tr>
<td>Food security in Gaza Province</td>
<td>11.8</td>
<td>Complementary with BOF-Segurança Alimentar: water infrastructure (bilateral cooperation) related to multiactor program for improving food security in 6 districts of the province of Gaza. Project will be executed by BTC FOS.</td>
</tr>
<tr>
<td>BELGIUM</td>
<td></td>
<td>2011–2016</td>
</tr>
<tr>
<td>National Agricultural Extension Programme (PRONEA)</td>
<td>9</td>
<td>Contribute to absolute poverty reduction and an improvement in the quality of life of poor men and women.</td>
</tr>
<tr>
<td>IFAD</td>
<td></td>
<td>Its purpose is to attain increased returns and improved household food security of subsistence farmers, particularly female-headed and disadvantaged households, through a steady increase in production efficiency.</td>
</tr>
<tr>
<td>2011–2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advancing land use rights and natural resource benefits</td>
<td>5.6</td>
<td>Foster sustainable socioeconomic local development through advancing land use rights and natural resource benefits.</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td></td>
<td>2012–2017</td>
</tr>
<tr>
<td>HortiSempre</td>
<td>5.8</td>
<td>Address key bottlenecks in the production of existing locally grown horticultural products (e.g., cabbage, carrots), with a particular focus on promoting microirrigation solutions, to increase the revenue of 4,000 farmers.</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td></td>
<td>2012–2017</td>
</tr>
<tr>
<td>TECHNO SERVE</td>
<td>8.1</td>
<td>Support private-sector development in Inhambane. This project is assists entrepreneurs and industries.</td>
</tr>
<tr>
<td>IRELAND</td>
<td></td>
<td>2012–2017</td>
</tr>
<tr>
<td>PROIRRRI Sustainable Irrigation Development</td>
<td>70</td>
<td>Increase agricultural production and raise farm-level productivity in new or improved irrigation schemes in the provinces of Sofala, Manica, and Zambezia.</td>
</tr>
<tr>
<td>WORLD BANK</td>
<td></td>
<td>2012–2017</td>
</tr>
</tbody>
</table>
### Government and Development Partner Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Country</th>
<th>Duration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADPP Farmers’ Clubs for wealth creation among smallholder farmers in Mozambique</td>
<td>FINLAND</td>
<td>2013–2018</td>
<td>Contribute to reduction of rural poverty in four districts in Sofala and Zambezia provinces through developing small-scale agriculture and increasing wealth of farming households, men and women alike, in a sustainable way. It is designed to (i) improve household food security, (ii) improve access to markets and financial resources, and (iii) improve environmental, water, and sanitation conditions and increase health awareness for farmers and their families.</td>
</tr>
<tr>
<td>MAP Land Management and Administration (GESTERRA)</td>
<td>NETHERLANDS</td>
<td>2013–2018</td>
<td>Support the National Directorate for Land and Forestry and increase coordination among key stakeholders. GESTERRA aims to reduce the inefficiency and risks associated with land management and the tenure system.</td>
</tr>
<tr>
<td>Feed the Future Partnering for Innovation</td>
<td>USAID</td>
<td>n/a</td>
<td>Helps the private sector scale and market agricultural technologies for smallholder farmers through investing in technology commercialization and knowledge exchange. The program’s goal is to increase the productivity and profitability of smallholder farmers by funding companies to commercialize new agricultural technologies in developing countries. It operates four provinces (Nampula, Zambezia, Manica, and Tete) and 26 districts.</td>
</tr>
</tbody>
</table>

In addition to the projects listed in Table 22, the **IDE Project** is an inclusive business venture designed to develop private-sector extension services that provide high-quality agricultural products and advice to small-scale farmers. The project is based on an IDE initiative implemented in Cambodia, where low-cost extension services were provided to rural populations through independent microentrepreneurs called farm business advisors (FBAs) operating as franchisees linked to a central franchisor. Building on this experience, IDE creates commercially viable enterprises at different levels and supports the production, wholesale, retail, and distribution of quality products and services to small farmer clients.

The commercial driver for this project is the high agricultural potential of Mozambique, which has been constrained by poor market information, lack of horticultural knowledge, water scarcity in the dry season, and lack of access to technology and high-quality inputs. IDE aims to deliver irrigation products and other essential inputs to the rural poor in this new market, allowing them to increase their yields and incomes in a cost-effective and sustainable way. According to current estimates (based on the second year of the project), around 3,000 farmers are already benefitting, being assisted by FBAs who are facilitating their access to seeds, equipment, markets, agricultural best practices, and finance, where available. Approximately 8,000 farmers are projected to benefit in the next two years.

**Iniciativa de Terras Comunitarias (ITC)** mobilizes resources to enable secure access to land through community land delimitation and demarcation of farmers’ group land and ensures liaison with industry partners (government, civil society, and private sector). The main objective of the initiative is to complement government’s efforts to secure the land rights of rural communities and strengthen their capacity to be active in the sustainable use and management of natural resources, as a contribution to promote local community development. The initiative began in 2009 in Nampula, Niassa, and Zambezia provinces with the funding of six European donors led by DFID and has now expanded to all provinces of the country except Inhambane and Maputo. So far 462 community demarcations have concluded and 1.3 million people have benefited. This initiative addresses the issue of smallholders’ access to land. Although it does not resolve financial institutions’ collateral requirements, ITC does provide more security to smallholders and increases the sustainability of their agricultural activities.

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31 This is part of a multi-billion dollar program, covering many countries. The allocation for Mozambique is not available.
CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The smallholder survey shows that there are segments of smallholders—approximately 7 percent of the total sector, representing some 370,000 households—that are currently ready and able to access financial services, and the financial sector could reach further. To bring more smallholders into this group, there needs to be a concerted effort to improve agricultural productivity. Because government extension services are very limited, the onus rests on out-growers and NGOs, funded by donors. This is most effectively done under the umbrella of coordinated programs.

In terms of financial solutions, the data illustrate that smallholder households prioritize savings and, to a lesser extent, associated insurance (e.g., the social fund created by an ASCA), as well as some payment services. Credit is required for agriculture but also for other aspirations, though some of these may be better served by savings. However, given that distance is a severely limiting factor, formal banking services accessed only through branches and ATMs will not be a solution, even in the medium-term. ASCAs, although classified as informal financial services, are an important element in promoting financial inclusion. Their system is easily managed by the smallholder population and, after the initial intervention to train the groups, needs little maintenance.

The solution in terms of access to formal financial services is digital financial services. This approach implies sufficient network infrastructure, mobile money agents, cash-in/cash-out opportunities, banking agents, and a motive to use the services other than buying airtime. It also implies collaboration between banks and mobile money operators, and substantial financial education. Banks are making rapid progress in expanding access to their services via mobile technology.

An important driver for improving agricultural productivity are out-growers. The use of DFS to pay farmers can be a vital catalyst in promoting DFS uptake in rural areas. Farmers will likely want to cash out immediately, until they have sufficient confidence in the service. Access to financial services, be they formal or informal, is crucial to improve the productivity and well-being of the smallholder community, increase agricultural production to healthy levels, reduce dependence on imports and increase exports, and make agriculture a more attractive, entrepreneurial option for younger farmers.

RECOMMENDATIONS

This section makes specific recommendations on strategies to advance smallholder financial inclusion. Although recommendations fall under private sector, donors, and policy makers, success depends on many joint initiatives.

Private Sector

A. Out-growers and agricultural commodity buyers

> Continue with a policy of enlightened self-interest to partner with government extension services, NGOs, and farmers’ associations to (i) provide technical advice, on food crops as well as cash crops, (ii) encourage the use of appropriate fertilizer and insecticides, and improved seeds, and (iii) work with appropriate partners in new initiatives, particularly those designed to reduce post-harvest losses (through warehouse receipts [see Box 6], treated storage bags, and weather insurance).

> Partner with banks and mobile money operators to increase access to DFS, ensuring that the introduction of the services is accompanied by adequate financial education.

> Collaborate with insurance companies to develop accessible agricultural insurance.

B. Mobile Phone/Money Operators

> Collaborate with multiple partners to create digital ecosystems. The business generated by smallholders is unlikely to be interesting on its own, and may make uptake slower. Salary payments could ensure a regular injection of e-money into the local economy.

> Provide extensive training to agents and customers on the use of mobile money.

> Seek partners to provide other services via the mobile platform, such as extension advice, market linkages, and insurance services.

> Embrace interoperability, which in the long run, will benefit all players in the market.
> Invest in finding solutions to digitalize ASCAs.

C. Banks
>
> Accept that providing financial services to smallholders is not going to be done through brick-and-mortar branches, invest in learning more about current and potential clients, and deploy digital services.
>
> Recognize that initially the need is for savings, and not credit, especially with the current high interest rates.
>
> Develop partnerships with key players in rural areas to deliver appropriate services (e.g., warehouse receipts).
>
> Develop robust banking agent models, carefully defining the product offering and back this up with training for agents and financial education for clients. Supervise the agents carefully and respond to customer complaints promptly and sympathetically.
>
> Seek out potential partners—agribusinesses and farmers’ associations through which finance could be channeled.
>
> Where appropriate, help informal savings groups and ASCAs to open bank accounts.
>
> Embed suitable insurance products in the financial services.

D. Development Partners
>
> As noted, development partners have become more, rather than less, important as agents for change in the sector. This is partly because there are so many new developments all over the world that development partners are ideally placed to introduce best practices to Mozambique. The danger can be that the emphasis is on the latest high-tech solutions, whereas the most appropriate ones are low tech. This is particularly the case with ASCAs. Although these is a lot to be said for digitalizing the system, in the first instance, the cashbox with three guardians and a careful, written register of contributions and loans still works very well.
>
> The promotion of farmers’ associations continues to be important. Many NGOs have done this well but many have not. Quality counts.
>
> Development partners have an important role to play in ensuring that integration into VCs is beneficial for smallholders and does not make them vulnerable to exploitation.
>
> Programs to support agriculture and access to finance should always have a strong element of financial education, which to be effective must be consistent and sustained. A single session in a classroom atmosphere does not constitute effective financial education.

E. Government and Regulating Institutions
>
> In an environment where disruptive technology is at work, regulation becomes a difficult balance between maintaining regulation in the public interest and the need to let innovation flourish. It is also important to avoid intervening in the market or executing activities, where the role of the government is to provide an enabling environment and appropriate regulation.
>
> The government should not, as a rule, be involved in direct lending because it distorts the market and tends to have undesirable consequences, such as corruption and low repayment. These in turn discourage private sector financial firms from entering the market.
>
> BM has an important role in financial education, and should ensure that all stakeholders incorporate this into their services, as in the case of the regulation on bank cards. As with this regulation, there is an important role in ensuring consumer protection.

“The solution in terms of access to formal financial services is digital financial services...”
ANNEX 1.
COUNTRY SOCIOECONOMIC PROFILE IN 2016

POPULATION
According to INE projections, Mozambique had a population of 26.4 million people in 2016.\(^{32}\) The provinces of Zambézia (in the center) and Nampula (in the North) are the provinces with the greatest number of people, with 4.9 and 5.1 million, respectively. Maputo City and Gaza, both in the south, are the provinces with fewest people. The population density in Mozambique is relatively low at 34 people per square km when compared to the world average (56.6 people per sq. km) or other African countries like Malawi (183 people per sq. km) or Tanzania (60 people per sq. km). The majority of Mozambicans continue to live in rural areas (68 percent), although this has been decreasing over the years. In 1997, the rural population was 71 percent, and in 2007 it was 69 percent.

Life expectancy among Mozambicans has been increasing over the years, from 42.3 in 2007, 50.9 in 2007; currently it is 54.1. Though the life expectancy has increased, the population is still young, with 45 percent younger than 14 years old.

In terms of gender, Mozambique has more women (52 percent) than men (48 percent). The difference between men and women is more or less similar in all provinces, except for Inhambane and Gaza in the south of Mozambique where women are 55 percent and 54 percent, respectively, of the population in 2016, mainly as a result of labor migration to South Africa.

The literacy rate among adults (people older than 15 years) is low at 58.84 percent in 2015.\(^{33}\) It is lower among women (45.53 percent), Mozambique scores worse than all of its neighboring countries in the United Nations Development Programme (UNDP) 2013 Education Index, a measure based on the mean number of expected and completed years of school (0.37 in Mozambique versus 0.44 in Malawi, 0.50 in Zimbabwe, 0.59 in Zambia, and 0.70 in South Africa).

In the UNDP’s 2015 Human Development Index, Mozambique was ranked 180 of 188 countries with an overall score of 0.416. This is a slight improvement—it ranked 184 of 187 countries with a score of 0.322 in 2011—though it still falls below the “low human development” line (0.505) and the Sub-Saharan Africa average (0.518).

Poverty rates are higher in rural areas than in urban areas. The Mozambique National Poverty Evaluation acknowledges that poverty is a multidimensional phenomenon and with a number of factors. However, it establishes the poverty line from which it determines poverty incidence by calculating the amount of money an individual needs to cover basic needs. Using this consumption measure, the study found that 50.1 percent of the rural population to be living in poverty compared to 37.4 percent in urban areas. This gap narrowed between the 1996–1997 evaluation and the 2008–2009 study, but increased again in the 2014–2015 study (see Figure 34).

FIGURE 35: MOZAMBIQUE POVERTY INCIDENCE BY URBAN AND RURAL AREAS

\(^{32}\) INE projections are based on the last national census done in 2007.
\(^{33}\) UNESCO Institute for Statistic Estimation.
ECONOMIC OVERVIEW

Mozambique’s real GDP growth rate averaged 6.9 percent per annum from 2009 to 2015. However, annual growth decreased from $16.9 billion in 2014 to $14.7 billion in 2015. The GDP growth is projected at 3.7 percent for 2016, having been revised downward several times. The deceleration of the economy is driven by a number of factors, including the following:

> The reduction of foreign direct investment from $6,175.12 million in 2013 to $3,710.78 million in 2015, due to the downturn in commodity prices.
> The excessive level of indebtedness of the government, declared unsustainable.
> The rise of import costs following the devaluation of Mozambican currency ($1 was 30.10 Mt in 2014 and now is around 75 Mt).\(^{34}\)

GDP is expected to remain low for the next four or five years, but with a rapid increase in the early 2020s when gas and oil production gets underway. Past increases in GDP have not resulted in improved financial well-being of the majority of the population, as seen in the statistics just mentioned. Gross National Investment (GNI) per capita, adjusted for purchasing power was $1,123 in 2015, one of the lowest among countries in the region (see Figure 35).

FIGURE 36: GNI PER CAPITA 2014 (2011 PPP $)

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\(^{34}\) According to www.oanda.com.
ANNEX 1.
COUNTRY SOCIOECONOMIC PROFILE IN 2016

Agriculture’s contribution to GDP has also been falling. In 1991 the contribution of agriculture to the national GDP was 37 percent, now it is 25 percent. The services sector has been increasing its contribution since 1991, and now contributes 56 percent of GDP.

However, the percentage decline masks an important increase in real terms (see Table 23).

**TABLE 23: AGRICULTURE PORTION ON GDP (IN 10^6 MT)**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (10^6 MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1,693</td>
</tr>
<tr>
<td>1999</td>
<td>16,454</td>
</tr>
<tr>
<td>2009</td>
<td>83,779</td>
</tr>
<tr>
<td>2015</td>
<td>136,050</td>
</tr>
</tbody>
</table>

Source: Bank of Mozambique

Though the agricultural sector accounts for just 25 percent of GDP, over 75 percent of the country’s workforce reported being active in agriculture, forestry, and fishing in the 2007 census. Table 24 compares employment with GDP by sector.

**TABLE 24: EMPLOYMENT AND GDP, BY SECTOR**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, and Fishing</td>
<td>75.2</td>
<td>25</td>
</tr>
<tr>
<td>Commerce and Finance</td>
<td>10.0</td>
<td>26</td>
</tr>
<tr>
<td>Administrative and Other Services</td>
<td>6.7</td>
<td>16</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.2</td>
<td>10</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5</td>
<td>3</td>
</tr>
<tr>
<td>Transportation and Communication</td>
<td>1.2</td>
<td>12</td>
</tr>
<tr>
<td>Mining</td>
<td>0.7</td>
<td>6</td>
</tr>
<tr>
<td>Unknown</td>
<td>0.3</td>
<td>0</td>
</tr>
<tr>
<td>Energy</td>
<td>0.2</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: INE

Sixty percent of Mozambique’s exports came from large projects, especially Mozal. Mozambique exports include aluminum (27 percent), coal (11 percent), electricity (10 percent), gas (8 percent), tobacco (8 percent), sugar (4 percent), cashews/nuts (1 percent), prawns (1 percent), cotton (1 percent), and timber (2 percent); these are mainly exported to the Netherlands, South Africa, India, and Singapore. The country imports machinery and transport equipment, fuel, chemical, ores and metals, and textiles, mostly from South Africa, China, the Netherlands, and Portugal (World Bank, World Integrated Trade Solution). In 2015, Mozambique recorded a trade balance of around -5.4 percent (AEO 2015).
Although Mozambique has great agriculture potential and agriculture is one of the most important economic sectors, the country imports large quantities of food, mainly from South Africa and, to a lesser extent, Thailand. The lack of infrastructure (roads and transport services) to link the key areas of production in the center and north of the country to the main markets (urban areas, especially Maputo City) is a leading reason for importing food products.

Since 2015, the Mozambican currency has been losing value against foreign currencies. In January 2015, 1 metical was equivalent to US$0.0306, while in July 2016 it was equivalent to US$0.0152, a reduction of nearly 50 percent. Because Mozambique relies heavily on imports, this depreciation is affecting the price of goods. The inflation rate for 2016 of 18.3 percent is mainly driven by inflated food prices, after some years with inflation less than 10 percent. The Instituto Nacional de Estatística reported annual inflation of 25.27 percent in 2016. The inflation rate is likely to remain above 20 percent throughout 2017, according to Trading Economics (www.tradingeconomics.com), though BM is forecasting a reduction to 14 percent by the end of 2017.

INFRASTRUCTURE

Inadequate infrastructure presents a major challenge, particularly in rural areas. Almost 26 percent of the population has access to the electricity grid, but only 13.1 percent use electricity for lighting. All the district centers are connected to the main grid; however, about 98.9 percent of the rural population are outside the grid of distribution and only 41.7 percent of the population in urban areas use electricity for lighting. However, despite the connection to the grid, the unreliable supply obliges many district capitals to use back-up generators, which are expensive to run; the supply of diesel can also be unreliable. However, development partners such as GIZ and DfID are promoting the use of renewable energy.

Regarding transport infrastructure, Mozambique has a very limited road network that is mainly unpaved (69.6 percent), with only 17 percent of the rural population living within 2 km of the nearest road in good condition. The unstable security situation in the center of the country severely affects transport—some companies no longer operate in these areas. Transport companies have also been hit by the reduction in the subsidy for diesel, resulting in a 24 percent increase in price, and by successive increases in the base lending rate.

Compared to other infrastructure types, communications are the most developed. However, there is a huge gap between landline and mobile infrastructure. The limited development of landline connectivity, especially in rural areas, has constrained expansion of financial institutions that depend on “online” systems of communication. However, mobile phone companies have invested heavily in fiber-optic networks, which are proving more reliable.

Mobile communications are far more developed than those that rely on landlines. Mozambique’s mobile phone networks are considered among the most developed and modern in Sub-Saharan Africa, mainly because of Movitel’s entry into the Mozambique market, after Mcel and Vodacom. These networks bring an opportunity to expand financial services in rural areas using mobile connections. According to the World Bank Diagnostic Report (2016) mobile phone penetration rose from of 32 percent in 2011 to 59 percent in 2015.

Currently, it is assumed that network coverage exceeds the 72 percent countrywide coverage achieved in 2012 (only 8 percent away from the Southern African average) because of Movitel’s infrastructure expansion since 2011. Focusing on rural areas, Movitel currently covers all of Mozambique’s districts and highways, potentially reaching nearly 80 percent of the population.

Apart from infrastructure availability, the dispersed and low population density presents a huge challenge to infrastructure and distribution feasibility. Rural areas, in particular, lack the people and economic activity to attract transport infrastructure development. Agriculture is severely impacted, given the high incidence of small, dispersed, and remote population. Consequently, the cost for inputs and service providers, financial services providers, and key public services to reach markets is prohibitive.
ANNEX 2.
MACRO-LEVEL ANALYSIS FOR SMALLHOLDER FINANCIAL INCLUSION

This annex reviews the macro-level environment in which smallholder finance is promoted. The first section describes government strategies and plans that influence smallholder economic and financial empowerment. The second section analyses the regulatory environment, highlighting reforms that aim to transform the financial system into a more inclusive system, so that it is accessible to various social and economic sectors in the country, including the agriculture sector. Together, these sections reflect the high-level agenda for smallholder financial inclusion.

STRATEGIES AND PLANS

Smallholder financial inclusion are featured in strategies and plans of various government entities, in particular the Ministry of Agriculture and Food Security, Ministry of Economy and Finance, and BM, as detailed in the following.

At the broadest level, the government has defined a five-year plan through its Plano Quinquenal do Governo 2015–2019, aiming to achieve five main objectives:

1. Consolidating national unity, peace, and sovereignty.
2. Developing human and social capital.
3. Promoting employment, productivity, and competitiveness.
4. Developing economic and social infrastructure.
5. Managing, in a sustainable and transparent manner, natural resources and the environment.

These goals are to be achieved in an environment of peace, harmony, and tranquility; consolidated democracy; and participatory and inclusive governance. The plan is built on three supporting pillars:

1. Strengthening of the rule of law, good governance, and decentralization.

2. Promoting a stable and sustainable macroeconomic environment.

3. Reinforcing international cooperation.

Among other strategic objectives, the plan aims to promote and encourage the integration of smallholders into the VC of goods and services, ensuring integration of local content.

In addition, the Ministry of Planning and BM have developed a National Development Strategy 2015–2035, which aims to improve the living conditions of the population through the structural transformation of the economy and expansion and diversification of the production base. The Strategy defines agriculture as one of the priority sectors, setting actions aimed at transforming the sector, by (i) increasing agricultural productivity, ensuring the scale production at reduced costs as a means of increasing smallholders and agricultural entrepreneurs, while at the same time supplying urban areas with affordable food and meeting the demand of the agroindustry; and (ii) improving the marketing of agricultural and livestock production, to ensure the physical flow and access to the market of this production and reduce the risk of under use of agricultural production and livestock.

Regarding financial inclusion, the Ministry of Finance of Mozambique, with funds from the World Bank’s FIRST Initiative, designed the Mozambique Financial Sector Development Strategy (MFSDS) 2011–2020. MFSDS aims to develop a solid, diverse, competitive, and inclusive financial sector that serves individuals and SMEs with access to a range of quality, affordable, and accessible products and services. The strategy has three guiding pillars: (i) maintain a stable financial sector; (ii) support inclusive economic growth; and (iii) develop formal financial services and rapidly expand financial access. The strategy is built on the principle that financial inclusion
is a multiministerial responsibility, attributing specific responsibilities to the Ministry of Economy and Finance, the Ministry of State Administration, and the Ministry of Agriculture. Among others, the strategy specifically targets increasing smallholders’ access to credit by increasing their access to DUAT.

BM led the design of the Financial Inclusion National Strategy (FINS) 2016–2022, whose design was foreseen as one way to further MFSDS. FINS aims to build an inclusive and comprehensive financial system through increased knowledge, access, and continuous use of suitable financial products and services that can improve people’s well-being and quality of life, as well as promote the country’s economic development by supporting the activities of the business sector, including small farmers and SMEs. The strategy is guided by three pillars: (i) access to and use of financial services; (ii) strengthening of the financial infrastructure; and (iii) consumer protection and financial education. FINS explicitly highlights small farmers and MSMEs in its vision statement because it recognizes the role of these segments in stimulating the national economy. The implementation of the strategy assumes the commitment of the Government and the regulatory and supervisory institutions in the financial sector, BM, and Instituto de Supervisão de Seguros (ISSM), and the active involvement of key formal financial sector actors.

The strategy defines specific targets for 2018 and 2022, including the percentage of adults with physical or electronic access to financial services provided by a formal financial institution (40 percent in 2018, and 60 percent in 2022); the percentage of districts with at least one point of access to formal financial services institutions (75 percent in 2018, and 100 percent in 2022); and the percentage of the population with an access point to financial services less than 5 km from residence or work (55 percent in 2018, and 75 percent in 2022).

On the agriculture development front, the Strategic Plan for Agricultural Development 2011–2020 (PEDSA) was developed by the Ministry of Agriculture and Food Security. This aims to develop a thriving, equitable, competitive, and sustainable agricultural sector that is able to respond adequately to the challenges of food security. PEDSA encompasses four pillars:

1. Increasing productivity and production, competitiveness, and its contribution to food security and nutrition.
2. Improving the guiding framework and services for greater market access.
3. Promoting the sustainable use of land resources, water, forests, and wildlife.
4. Strengthening organizations and institutions for agricultural development.

PEDSA is guided by three strategic principles:

1. Work along the VC, in the agroindustry model.
2. Use different approaches for each type of operation.
3. Use public-private partnerships where possible to improve efficiency and reduce costs—recognizing that there are several opportunities for joint government and private sector intervention throughout the VC to increase productivity and income.

Specifically, for smallholders, PEDSA encourages the contract-production model in the agroindustry to improve small farmers’ access of to quality inputs and to meet product quality requirements for market. The Strategic Plan emphasizes the need to increase commercial credit to producers, agritraders, and agriprocessors for them to scale up and increase their competitiveness.

Although there are many strategies aiming to improve
smallholders’ financial inclusion, these strategies do not have action plans that guarantee that a set of coordinated actions are taken to achieve goals. As a result, it is difficult to monitor the implementation of these strategies.

Mozambique’s current dire economic situation makes it more urgent than ever to increase local production and reduce dependence on imported food. However, a recent publication by the Observatório do Meio Rural notes that, although the policies and plans exist to promote local production, there is often a failure in implementation.

COORDINATING BODIES

The Mozambican Bank Association (AMB) was founded in 1999 as a nonprofit association to represent and defend the interests of its members. All banks are members of AMB. The association supports the technical, economic, and social activity of participating banks and it conducts research and represents and advocates for the banking industry and its members.

The Mozambican Association of Microfinance Operators (AMOMIF) was formed as a coordinating body for microfinance operators. AMOMIF’s role and influence on the sector has significantly declined.

The ASCA Forum is an informal group of rural finance operators that provides a mechanism for group members to share experiences and reflect on best practices and challenges related to developing savings and credit groups.

Centre for Agriculture promotion (CEPAGRI) was established by the Ministry of Agriculture to develop the agricultural business sector. CEPAGRI’s role is to promote the agricultural and agroindustrial commercial sectors to maximize their contribution to economic and social development of the country. CEPAGRI develops activities to attract private investment to the agricultural commercial sector and identifies sources, facilities, and funding opportunities for developing the agricultural and agroindustrial commercial sectors. Although its intervention is aimed at the agribusiness sector, targeting particularly medium-sized agribusinesses, there are often links between smallholders and targeted agribusinesses. Some of the credit lines, such as PSRP II and Agro-Investe, have been facilitated by CEPAGRI.

KEY SERVICE PROVIDERS TO THE BANKING SECTOR

The Interbank Society of Mozambique (SIMO) was created in 2009, with 51 percent of the shares controlled by BM and the remaining 49 percent of the shares controlled by commercial banks. SIMO’s objective is to centralize the processing of electronic payment networks throughout the country, such as point-of-sale (POS) transactions and ATMs. The initiative was an effort of BM and 18 participating financial institutions. Currently, 17 banks have connected their platforms to SIMO’s switch, thus expanding the ability of smallholders to access financial services from any ATM and POS device available in urban and rural areas, regardless of which bank card they hold.

The Central Credit Registry (CRC) is a database managed by BM to record and share information provided by participating credit institutions. CRC is being expanded to cover other commercial entities. Since the end of 2015, Mozambique has had a legal framework for establishing a private credit registry. This will allow the expansion of credit risk management, not only for commercial banks but also for microfinance operators and other entities that provide deferred payment services, such as traders and other suppliers of goods and services. Although there is currently no private credit registry operator, there international companies have been in providing such services. CRC may improve financial service providers’ ability to analyze smallholders’ credit worthiness, through access to their credit history from different credit providers.
### TABLE 25: SUMMARY OF FSP LOAN CHARACTERISTICS

<table>
<thead>
<tr>
<th>Commercial Banks</th>
<th>Loan Size (MZN)</th>
<th>Interest rates</th>
<th>Term length</th>
<th>Eligibility criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>250,000 (min)</td>
<td>10–12%a</td>
<td>36–60 months</td>
<td>Minimum income (250,000), NUIT&lt;sup&gt;b&lt;/sup&gt; Business plan, DUAT&lt;sup&gt;c&lt;/sup&gt; Financial report</td>
</tr>
<tr>
<td></td>
<td>250,000 (min)</td>
<td>30–35%&lt;sup&gt;d&lt;/sup&gt;</td>
<td>36–60 months</td>
<td>Minimum income (250,000), NUIT Business plan, DUAT Financial report</td>
</tr>
<tr>
<td>Commercial Banks (dedicated to microfinance)</td>
<td>Loan Size (MZN)</td>
<td>Interest rates&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Term length</td>
<td>Eligibility criteria</td>
</tr>
<tr>
<td></td>
<td>10,000 (min)</td>
<td>3.5–4% monthly</td>
<td>9–12 months (individual and group loans)</td>
<td>Business activity license NUIT, collateral Financial results</td>
</tr>
<tr>
<td>Microbanks</td>
<td>Loan Size (MZN)</td>
<td>Interest rates</td>
<td>Term length</td>
<td>Eligibility criteria</td>
</tr>
<tr>
<td></td>
<td>3,000–1,000,000</td>
<td>38–52% annually</td>
<td>6–72 months</td>
<td>ID, NUIT, Payslip (for Letshego and Bayport)</td>
</tr>
<tr>
<td>Credit Cooperatives</td>
<td>Loan Size (MZN)</td>
<td>Interest rates</td>
<td>Term length</td>
<td>Eligibility criteria</td>
</tr>
<tr>
<td></td>
<td>1,000–5,000</td>
<td>3% monthly</td>
<td>4–9 months</td>
<td>&gt;1 year of operation Guarantor</td>
</tr>
</tbody>
</table>

<sup>a</sup> These are subsidized rates through dedicated credit lines.
<sup>b</sup> NUIT is a unique fiscal identification number, which among others, is requested by financial institutions to open bank account and perform certain transactions.
<sup>c</sup> DUAT = Direito do Uso e Aproveitamento da Terra (i.e., “right of use and tenure”)
<sup>d</sup> Commercial rates vary with the prime rate (FPC), which was 25.25% on 1 November 2016. Commercial banks add a spread of 4 to 9% on FPC.
ANNEX 4.
REFERENCES


ADVANCING FINANCIAL INCLUSION FOR SMALLHOLDER HOUSEHOLDS IN MOZAMBIQUE

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