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FSDMo. 
INVESTINDO EM INCLUSÃO FINANCEIRA



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Acronyms

BVM - Bolsa de Valores de Moçambique

CGAP - Consultative Group to Assist the Poor

DFS - Digital Financial Service

FSDMoç - Financial Sector Deepening Moçambique

HDC - Human Centre Design

ICC - International Capital Corporation

ILO - International Labour Organization

INCM - Instituto de Nacional de Comunicação de Moçambique

KYC - Know Your Client

MSME - Micro Small Medium Enterprises

MNO - Mobile Network Operator

NBC - Micro Seguros

SME -Small Medium Enterprises

Message from the CEO

Financial Sector Deepening Moçambique (FSDMoç) vision is a “dynamic financial sector offering quality services that enable resilience and economic empowerment for all Mozambicans”. We believe that technology solutions will lead us to this vision, and enable Mozambique to leapfrog into the world of digital finance, bringing access and deepen the usage to finance for the majority of Mozambicans. Over the past year FSDMoç has worked on building, piece by piece, the digital finance highway to open opportunities for financial inclusion. Let me share with you some of these building blocks.

One of the key drivers to building the digital finance highway is the youth market segment. We are proud to share that one of our young Mozambican graduates of the FSDMoç sponsored digital finance course, who developed a mobile application on digital financial terms, has won another Fintech award in Finland. We look to our youth to help us solve some of the challenges to expanding financial services. Recently, FSDMoç sponsored a Hackathon focused on young women in technology to solve the problems faced by women to access finance in Mozambique.

More than that, the youth represent a large market segment that is under-served by financial services, and they are the ones that are more likely to adopt digital finance. Government can play a role in un-locking this potential by making payments for government services available, particularly for youth, through a digital platform. FSDMoç has begun these discussions with some Governmental entities, for the payment of transport subsidies via electronic channels, as a critical building block for the digital finance highway. More work is needed in this area.

As FSDMoç creates more awareness on changing practices to apply digital solutions, it is also supporting the acquisition of competencies in digital finance. We co-sponsored financial sector professionals to take the Digital Frontiers Institute courses and developed an Alumni and community of practice at Eduardo Mondlane University. We would like to see the integration of digital finance into the course curriculum of Universities, which are the cradles for innovation. We hope that these efforts will stimulate innovative thinking generate the leadership and produce the skills to drive Mozambique's financial market into the digital era.

Building an inclusive financial market requires innovative and disruptive thinking on financial services. Mozambique is a country where the rural and underserved population have high levels of illiteracy. However, our work shows that they are ready to embrace technology. It just means providing financial literacy programs to accompany new digital finance offerings. We are already testing some solutions that are based on an understanding of market needs using an approach we call Human Centred Design.

But financial innovations applying technology cannot move the market without there being the right regulatory framework. Bank led and mobile operator led models make up the digital finance market in Mozambique. Both models need to be recognised, and, to accelerate financial inclusion, there needs to be an “open API” (application programming interface)



ESSELINA MACOME

There are around three million micro, small and medium-sized businesses, mainly in the informal sector, and many of them lack access to financial services, which particularly affects women entrepreneurs and makes it difficult for businesses to develop. By supporting FSDMoç, Sweden is working to improve access to financial services, by developing the financial sector so that more people have the possibility of saving or borrowing.

Quote from the Donor, SIDA

allowing participation of Fintech companies. FSDMoç is collaborating with the Banco de Moçambique to support a better understanding of the role of Fintech's and how to create the enabling regulatory environment without compromising financial stability. The first steps in this regulatory building block for the digital finance highway is our joint sponsorship of the BdM Regulatory Sandbox that provides the laboratory for Fintechs to test their applications and acquire licences. Additionally, we are engaging with the telecommunications regulator, INCM, around Know Your Client (KYC) requirements based on SIM card records.

Agents are a driving force to bring financial inclusion to the last mile. But agents need to acquire the knowledge to be effective in providing financial services. The agent model that exists in our market requires agents be linked to a bank or mobile money issuer provider. If agents could be a one stop shop for all banks and non-banks, and if we have greater interoperability, we could achieve better economies of scale, and more traffic on the digital finance highway. FSDMoç has acted as a facilitator between financial service providers to agree

on terms for interoperability. FSDMoç will engage with the industry on strategy for a nationwide agent capacity building initiative.

FSDMoç considers insurance as another potential market where technology can help with the distribution of insurance products, adding more traffic on the digital finance highway. We are working with the insurance regulator, ISSM, to develop a road map for expansion of the insurance market, specifically

microinsurance. At the same time, we are challenging the innovators to develop solutions to capture opportunities in crop and funeral insurance. These can build on the savings groups and associations (traders and small scale farmers) in Mozambique where large numbers of people can be aggregated on a single electronic platform. We are also working in the agriculture value chains, going down to the producers and exploring delivery of different financial products over a digital platform, such as a pay as you go model for the purchase of agri-inputs, and solar energy home systems.

Turning to capital markets, as we consider improving the access of business to finance, we must also consider how to channel savings for investments. Capital Markets play an important role in mobilising local capital for local investment. FSDMoç will continue its work with the National stock exchange BVM, and other public and private organisations, to build a road map for the development of the capital market and access for SMEs.

Finally, I am pleased that the financial inclusion landscape in Mozambique has changed significantly. The number of adult population with access to formal financial services jumped from 20%¹ in 2014 to 36%² in 2016, and we believe this is on the rise. The adoption of mobile payments, the advent of agency banking, greater awareness among stakeholders of interoperability, capital markets, digital finance, use cases such as pay-as-you-go solar energy, housing finance and more market insights and information are all contributing to this acceleration in levels of financial inclusion in the country. We look forward to the challenges of the year ahead, and to reporting in 2019 on how Mozambique is leapfrogging into the digital era in financial inclusion.

The returns our funder UKaid, is seeking in financing FSDMoç is “active use of responsibly provided financial services to poor people and Micro, Small, Medium-Sized Enterprises (MSME) that meet their needs”. It is assumed that such access will enable “sustainable improvement in the livelihoods of poor people through increased incomes, employment creation and long-term security against shocks.”

Quote from the Donor, DFID/UKAID

¹FinScope Consumer Survey 2014
²BM Financial Inclusion Report 2016

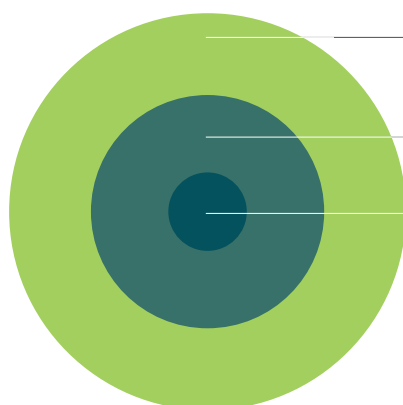
01

Financial Inclusion Journey 2017/2018

Over the past year, FSDMoç worked closely with our partners to better understand the financial behaviour of excluded target markets. Through this process, FSDMoc has generated market insights that are used to inform and develop financial solutions addressing the gaps in policy and regulation.

By placing the clients at the centre, FSDMoc is able to facilitate the development and design of solutions that will increase excluded markets access to financial services, and also crucially solutions that create value for them and improve their livelihoods.

Our Approach to promote financial Inclusion



Support financial sector authorities based on market insights and evidence of gaps in financial regulation.

To develop financial solutions FSDMoç is partnering with FSPs Support financial literacy and awareness.

Build skills and transfer knowledge to FSPs particularly on HCD, DFS and capital markets.

Understand the clients using human centre design techniques

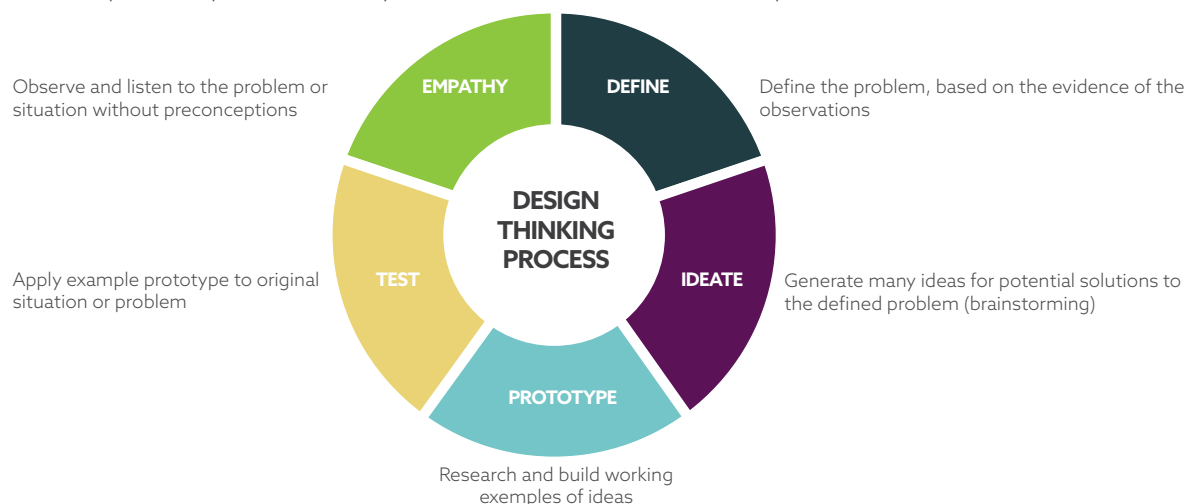
WHAT DO WE KNOW ABOUT THE FINANCIAL NEEDS OF EXCLUDED POPULATIONS?

We looked at women, youth, smallholder farmers, small and medium businesses (SMEs) to understand their financial behaviour applying human centre design (HCD).

HCD can be defined as a semi-structured process and set of activities to yield innovation products and solutions. It is particularly suited when designing products and services

for specific customers in mind, when the problem itself is ambiguous, and when stakeholders or providers want to test out key features of the solution before making subsequent investments in time and money.

Design thinking starts with **empathy** and uses collaborative and participatory methods, repeating all five steps of the process as many times as needed to achieve a complete solution.



“Understanding clients’ needs is a fundamental step towards conceiving financial solutions that are appropriate and affordable.”

Working with leading organisations in HCD, including CGAP, GRIID Impact, Digital Disruptions, and ICC Mozambique, and through partnerships with financial service providers (FSPs), we applied this approach on market segments we believe have significant opportunity for growth. During a FSDMoç sponsored workshop for FSPs, participants learnt the HCD process flow in a collaborative and hands-on

setting. The training involved understanding the end-users needs (empathy) in order to come up with an adequate and innovative financial solution. Participants used the Maputo fish market as their test case, interviewing merchants and cab drivers. We have carried out similar exercises with our FSP partners on other segments, including women, informal markets, and small holder farmers.

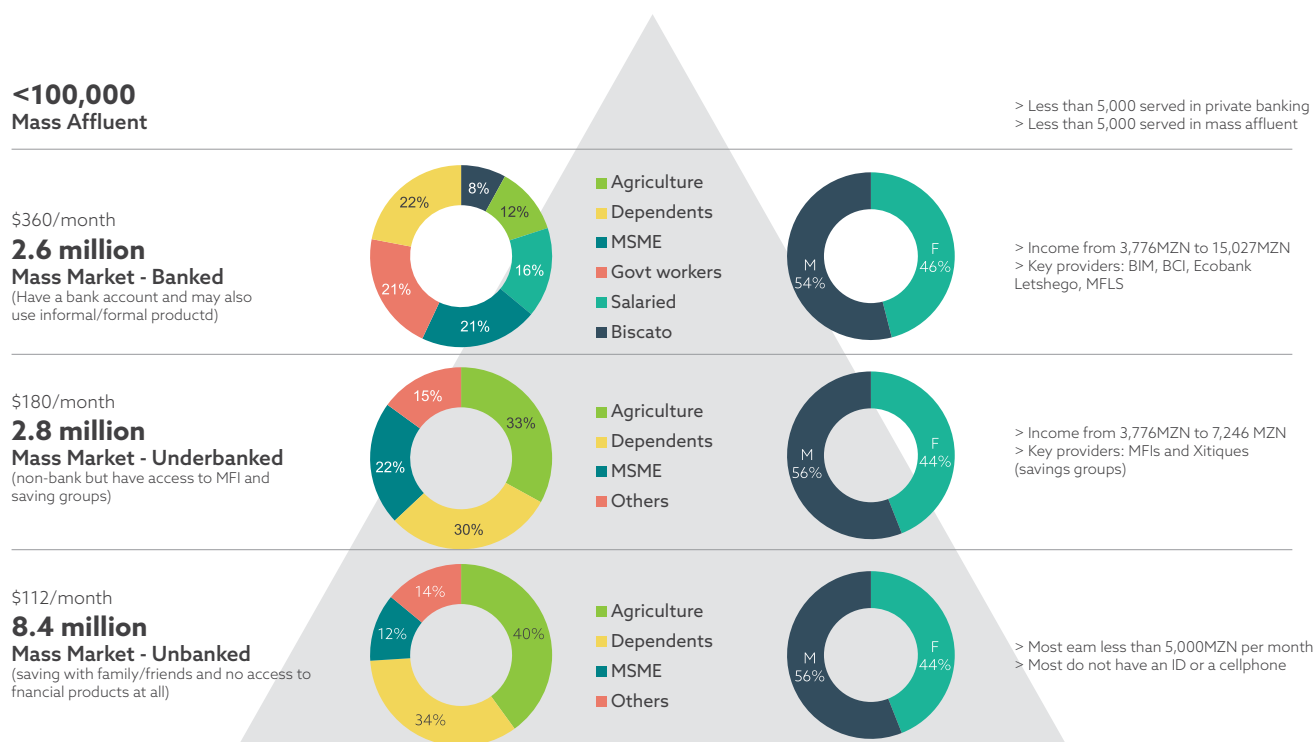


Visiting a local market to come up with ideas for small business financial inclusion on 12th December 2017



Brainstorming, designing, building, testing financial inclusion products on 12th December 2017

The Figure shows that the undeserved market is still a large segment of the population with about 11,2 million individuals.



Sources: industry interviews, access to, finance Mozambique, Finscope 2014, MAP Mozambique, 2015, Women's World Banking Analysis
NB: Data is from 2014

About 35% of the unbanked save for living expenses and 38% to increase their income. Loans are used to start/expand a business (45%) and for other emergencies other than medical (51%) which suggests unpredictability and variability of their expenses. The expenditure varies from daily food, wood and soap; utilities such as electricity, water and airtime; school fees, transportation and supplies and contributions to relatives.

It is important to note that the unbanked people, both urban and rural, have more difficulties in meeting documentation requirements, especially proof of residence for opening a bank account or applying for credit. Smallholder farmers with offtake arrangements receive their payments in cash, which represent a risk to them and to the off taker who has to transport vast amounts of cash.

Poor harvest, death of the household breadwinner, theft and fire destroying house or property are the higher risks perceived by the unbanked population. As a coping mechanism to these and other unexpected events, they sell something and borrow some money. To this group of population, insurance is a distant concept. They believe insurance is only for those that have more money and more assets to protect.

Digital financial services hold much promise to unlock the barriers to financial inclusion of youth, women and rural population. Yet, from financial services providers' stand point, systematically conceiving, designing and piloting new solutions that address the needs of the underserved population, in a quick and cost effective manner remains a challenge.

SMALLHOLDER FARMERS REPRESENT A LARGE MARKET SEGMENT IN TERMS OF NUMBERS OF PEOPLE AND AGGREGATE AMOUNT OF CASH BEING TRANSACTED.

About 75% of unbanked adults live in rural areas with the majority being smallholder farmers participating in the agriculture value chains of cotton, tobacco, cashew, coconut, sugarcane, and rice. These value chains aggregate hundreds of thousands of small scale farmers, with cash payment volumes amounting to millions of USD. The research we have carried out with our financial service partners shows a number of interesting opportunities to serve this market:

- > Farmers put money aside to cope with future needs or perform other transactions, but lack safe and affordable alternatives to keep money.
- > Even when the need exists for a bank account, there is a general perception that one needs to have a lot of money, especially for those with small farms.
- > Farmers with offtake agreements welcome the prospects of receiving payments in a form other than cash, mainly for security and convenience grounds.
- > However, most farmers do not have a mobile phone, and although they have no aversion to mobile technology, they admit not understanding how to use applications and respond to sms.
- > For those that have used e-payments solutions and banks, majority have had experiences that have led them not to trust this medium.

SMALL HOLDER FARMER MANAGEMENT OF HOUSE FUNDS



Strong evidence of planning. Incomes tend to be infrequent, unpredictable, and lump-sum

Farmers like the trip to town despite distance, and do multiple activities there this shall be farmers.

WOMEN HAVE LESS ACCESS THAN MEN, AND PRODUCTS NEED TO BE TAILORED TO MEET THEIR NEEDS....

Women represent 51% of the adult population. Women cannot be viewed as a homogeneous market and needs will vary based on income sources, position in the household, cultural biases, urban rural location, among a few differentiators. In Mozambique, Women can generally be classified in four categories, namely: woman in rural areas, woman in the informal sector (mainly in urban areas), women formally employed and women owning MSME. Women manage most of the household expenses which is a key factor of consideration when designing financial services for them.

We find that women are highly represented in agriculture which employs 62% of the women labour force representing the overwhelming majority (almost 90%) of those that work in this sector. This trend is seen in multiple developing countries. Despite this massive participation in agriculture, women are in the lower echelons of the agriculture value chains, and market their produce in informal markets. In many cases they are subject to discrimination by customary practices and bear a heavy workload.

A recent study by Women's World Banking sponsored by FSDMoç shows that women are net receivers of money, while men are net senders, and they have lower up-take of mobile money then men, with 36% usage versus 64% by men. Women transact frequently in small amounts, are active household money managers, and earn and collect several streams of money – business or salary payments,

contributions from family members, sporadic contributions from relatives or ex-partners. They are responsible for savings & managing multiple household bills and expenses – school, utilities, health, food, contributions to relatives. Savings groups and “xitiques” are used for savings where 58% of savings group members are women, with over 20,000 savings groups members nation wide.

INFLOW

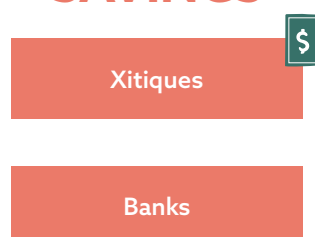
Women earn and collect several streams of money



“In the supermarket, we cannot pay with M-pesa, we need cash or card. It’d be good.”

W,C, Xai Xai

SAVINGS



OUTFLOWS

...and are responsible for saving & managing multiple household bills and expenses



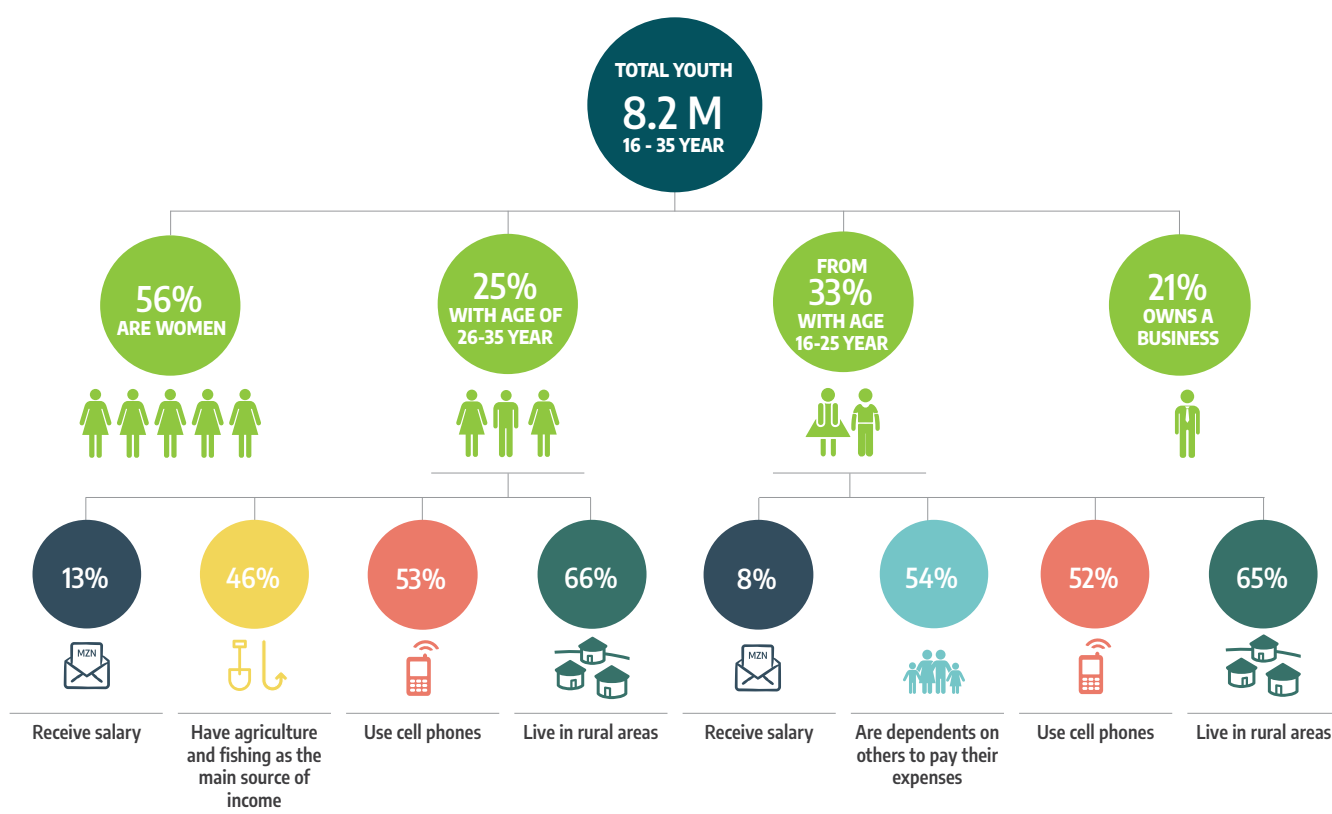
How can HCD be used to increase the uptake of financial services by women? First it allows us to understand what women need, and then we can tailor the approach to increase acquisition that will address the imbalance between men and women. The HCD approach will look at how to improve operational processes, with gender

difference in mind, what needs to be done to better position the product to attract more women, and what other products do women want – for example safe storage of money. HCD process will help FSPs better understand the market requirement and respond with value adding services.

YOUTH MARKET SEGMENT IS GROWING, AND POTENTIALLY THE KEY TO DRIVING DIGITAL SOLUTIONS...

There is a significant degree of financial exclusion among youth population, who are traditionally considered a risky demographic by financial service providers.

This is where the potential lies to drive financial services over a digital platform.



Woman Hackathon on financial inclusion: (i) identifying issues related to access to financial services by woman, (ii) design and propose innovative solutions to overcome those problems and (iii) expose the youth to the concepts and application of DFS

Driven by the belief that women are in position to best identify their problems, FSDMoç partnered with a university to organize a Woman hackathon. As a result of the hackathon, several solutions were proposed including how to provide savings for woman selling groceries and fresh vegetables in the market, peer to peer credit to refinance the business within a short turnaround period (1 day).

Brainstorming, designing, building, testing financial inclusion products - all in a few hours

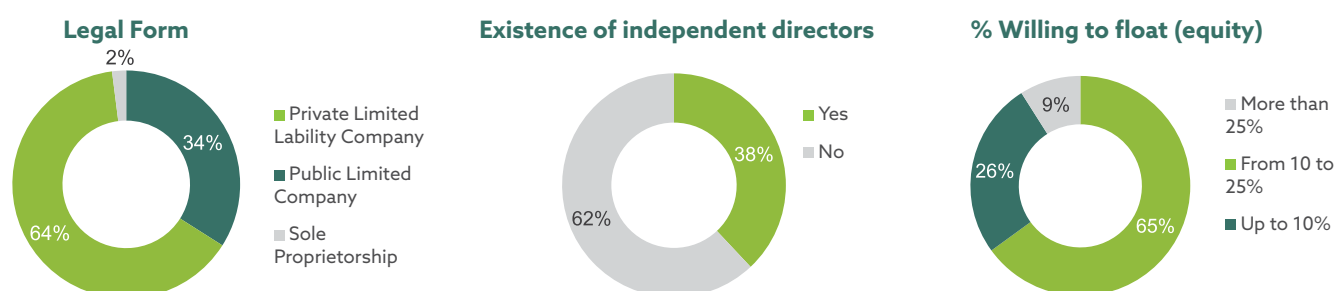
“Transparent and accessible capital markets are a vital element in the development of financial sector, providing a vehicle for long-term financing and diversification of funding sources, strengthening the economy and making it more resilient in the face of economic shocks.”

Bank BiG, 2018

WHAT DO WE KNOW ABOUT THE ENTERPRISE MOZAMBIKAN? MOST SMES REQUIRE MORE THAN JUST BANK CREDIT TO FINANCE THEIR BUSINESSES, BUT ARE THEY READY TO ATTRACT PRIVATE CAPITAL? FSDMOÇ PARTNERED WITH A FSP TO FIND OUT

FSDMoç and its partner undertook a SME gap analysis across the country where the information collected was regarding awareness of the stock exchange and whether the companies would consider issuing and listing securities. The results, revealed that 79% (out of 110 SMEs interviewed) have a positive net profit with 89% turnover above 300million MZN, and 55% of them have more than

100 employees. These are fairly large SMEs with potential/ (attractiveness) for private investments from capital markets and other investment sources. However, Legal status, corporate governance and willingness to float (equity) requires close attention as can be depicted in the figures below.



In summary, out of 110 SMEs interviews, only 25 could potential raise funding from capital markets. Further, the majority of SMEs still need to invest in their financial capabilities, whether this is producing audited financial statements, to understanding key financial concepts, to be able to access the capital markets.

Therefore, SMEs are heavily reliant on expensive bank credit to grow their operations, and the banks do not have the liquidity or risk appetite, and hence the high interest rates charged. Alternative funding sources are desperately needed.

HOW DO PEOPLE FINANCE THEIR HOMES?

Access to affordable housing finance is practically non-existent to low income households. Over the past year, we started to look into alternative approaches to bring about house finance to this segment of the population. The fact is, although in a disorderly manner, low income population manage to build themselves their houses even without any financial facility. The question is how?

Understanding this phenomenon could help construct a feasible approach to housing finance. That is what we have done with the launch of the Housing Investment Chronicles for Mozambique, which uncovered that most Mozambicans resort to:

Financial investment

Formal credit from FSP (consumer credit)

Informal credit from friends and family

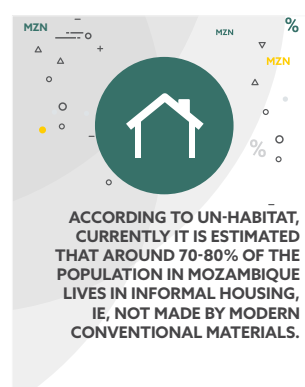
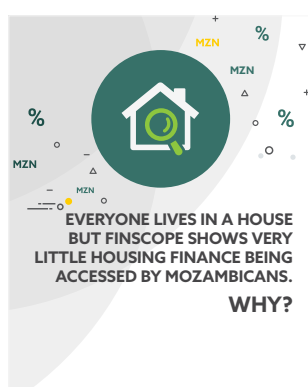
Savings and unexpected income

Non-financial investment

Dedicated labour in the construction

Donated materials

Ability to secure land



INSURANCE IS PRACTICALLY NON EXISTING IN MOZAMBIQUE, AND SO PEOPLE RESORT TO SELLING ASSETS WHEN AN UNEXPECTED EVENT OCCURS. SO HOW CAN WE DELIVER MICRO-INSURANCE TO THIS MARKET?

The national insurance market consists of 20 insurance companies and 1 micro-insurer. More the 60% dedicate their activities exclusively to non-life insurance products, such as vehicle insurance, workers' compensation, and property insurance, among others.

8% OF ADULTS HAVE INSURANCE DRIVERS

Of those insured, uptake of formal insurance products is driving by:

- > Personal funeral insurance 30%
- > Employer funeral insurance (15%)
- > Life insurance (13%)
- > Employer medicinal aid (8%)

Uptake of informal products is driving by:

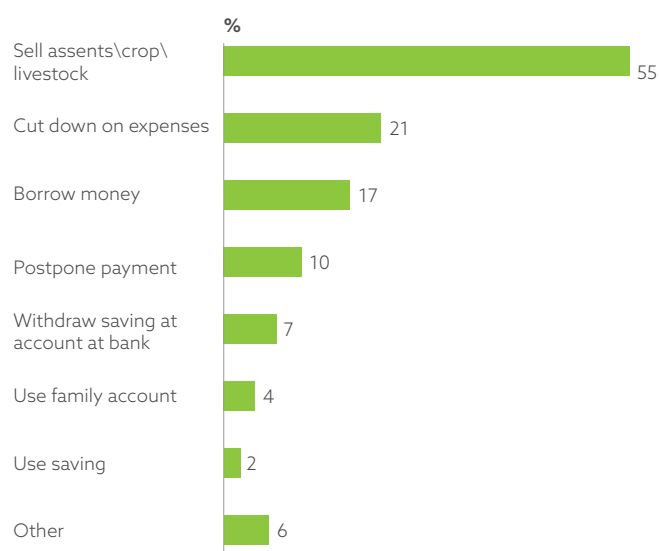
- > Informal funeral plan (37%)
- > Other informal insurance (25%)
- > Agreement with church (8%)

92% OF ADULTS DO NOT HAVE INSURANCE BARRIERS

Main barriers to the uptake of insurance:

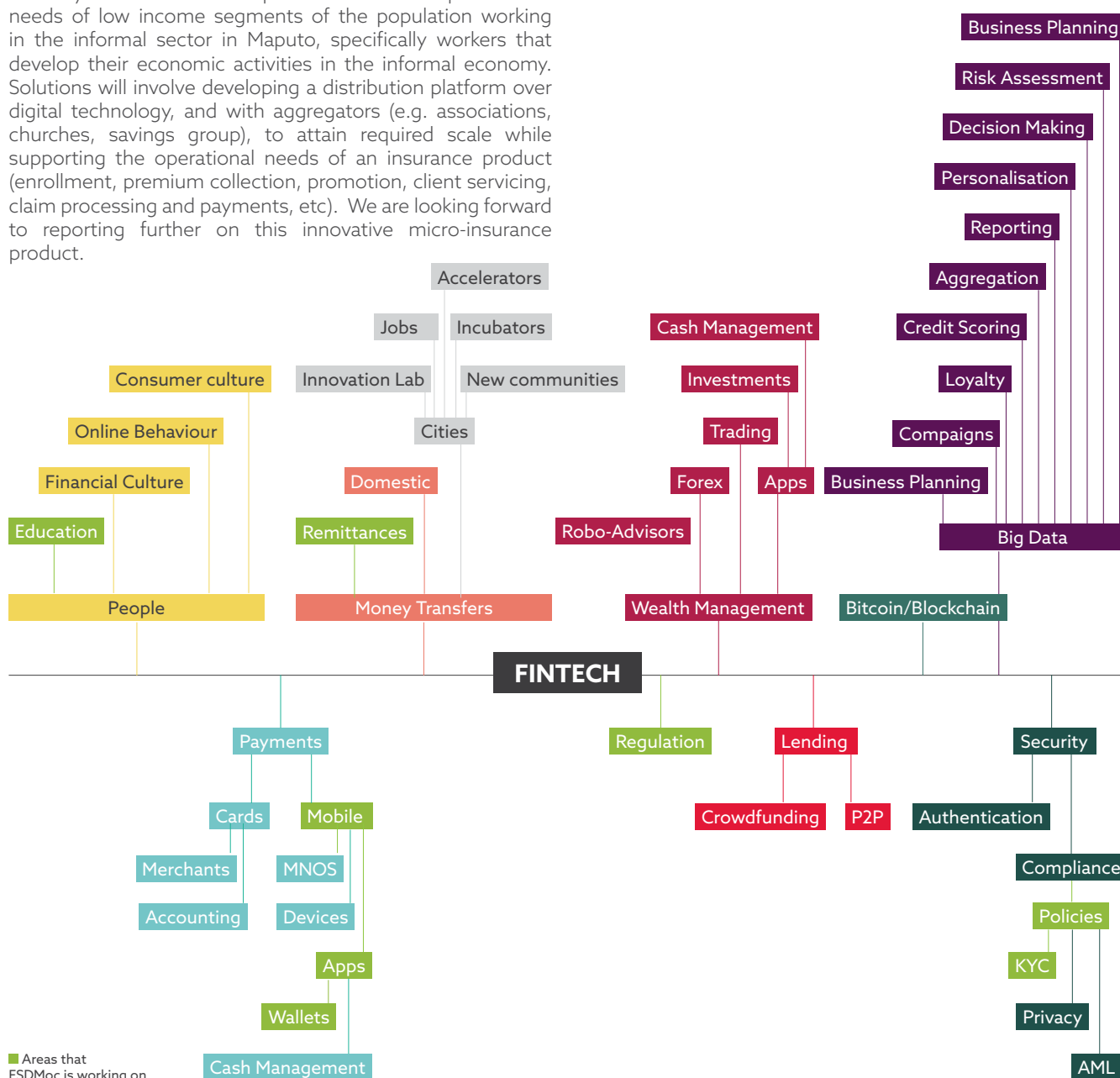
- > Claim they do not know about it (58%)
- > Claim they have never thought about it (30% of the time)
- > Claim they do not know how insurance works (27%)
- > Claim they do not need insurance (14%)

Mechanisms for paying for anticipated events



The provision of insurance services to low-income people can help under-served households protect themselves against the risks and shocks that life inevitably brings. Without access to risk mitigation tools, insurance or adequate social security services, low-income people are extremely vulnerable and ill by not equipped to meet unexpected and potentially devastating losses. FSDMoç has partnered with NBC and the Impact Insurance facility of the ILO to design and deliver a variety of micro-insurance products that fit the profiles and needs of low income segments of the population working in the informal sector in Maputo, specifically workers that develop their economic activities in the informal economy. Solutions will involve developing a distribution platform over digital technology, and with aggregators (e.g. associations, churches, savings group), to attain required scale while supporting the operational needs of an insurance product (enrollment, premium collection, promotion, client servicing, claim processing and payments, etc). We are looking forward to reporting further on this innovative micro-insurance product.

TURNING OF THESE INSIGHTS INTO VALUE ADDED FINANCIAL SERVICES, IN PARTICULAR TO THE FINANCIALLY EXCLUDED MARKET: THE FIGURE BELOW DEMONSTRATE AREAS AND SECTORS WHERE FINTECH'S CAN OPERATE AS PROVIDERS



DIGITAL FINANCIAL SERVICES:

"The unprecedented levels of innovation currently taking place within the digital financial services industry challenge traditional financial models and bring with them a number of new frontiers including; new business models, new technology, and new challenges." Digital Frontiers Institute.

So what is digital financial services. It is simply the delivery of financial services over a digital transaction platform such as mobile phone device, point of sale machine, and can also use a payment card. The phone and the payment card store information which represents monetary value. Typically digital financial services also involve the use of non-traditional bank agents such as retailers, shop keepers, where cash can be converted to digital and agents are connected to a communication infrastructure. To make digital payments work, they need to be widely accepted. Accordingly to itwebafrica, in Zimbabwe close to 90% of payments were digital payments. Given the shortage of USD notes on the country, eco-cash is now widely used.

Mobile money is undoubtedly a driving force for financial inclusion in Mozambique. It has opened up a landscape of opportunity for digital financial services.

First it is critical that we recognise the vastness of the country, and the fact that the majority of the population lives in rural areas earning a living from farming. To reach these people with value adding financial services we need to think away from brick and mortar. In this age of digital technology, new opportunities are now available to reach these populations using digital financial services and agents. We see in Mozambique the following models to go about providing DFS:

- (i) **Bank led** digital transactions supported by a dedicated network of agents in areas where the cost of setting up a traditional branch would be prohibitive. These agents offer money transfer, money deposit and withdrawal, bank statements, balance inquiry and payments of services. In remotes areas, the agents are often equipped with a solar panel kit to power all necessary digital platform apparatus. Access to banking services is also available over the internet and through mobile apps.
- (ii) **MNO led** digital transactions are equally supported by a dedicated network of agents that allow clients to purchase airtime, consult account balance, pay for services, cash in and cash out, and money transfer

Currently we do not have **Bank and MNO independent** digital transactions in the market owing to a variety of reasons from the infrastructure and regulatory domains. FSDMoç has been actively working to facilitate the process to making this third DFS delivery model a reality in Mozambique.

About a quarter of the adult population is using e-money, but most are middle class, banked, salaried or have businesses with regular customers. The remaining three quarters have irregular incomes, and speak a variety of Mozambique languages.

Mobile money is more than just digital delivery channel. It enables low-income households access to goods and services, such as electricity via a domestic solar kit, through pay-as-you-go solutions (for which FSDMoç partnered with two companies to test the model in Mozambique), while at the same time, empowering those who work as agents, such as the case of Laurinda Langa.

Our HCD work suggests that there are number of key features that could unlock opportunity to reach the financially unserved market with digital financial services:

- > Biometrics to simplify the KYC process
- > Safety and convenience for the users
- > Small deposits (100mt) with no minimal balance requirements, and different wallets for separate purposes (savings, medical bills, education, basic goods expenses).
- > separate purposes (savings, medical bills, education, basic goods expenses)
- > Loans for emergencies
- > Communicate frequently with the customer in a manner and language

that they understand

- > Financial literacy on digital technology

These solutions can apply to

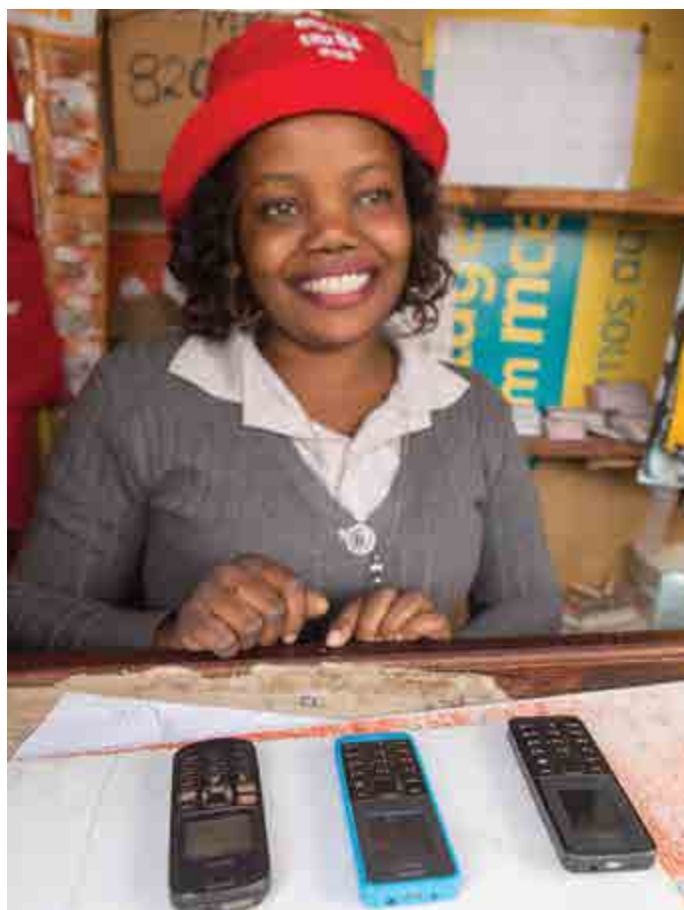
- > Savings groups – collection and payments
- > Insurance premium payment, and claims
- > Payment of goods and services
- > Emergency loans
- > Income generating/business loans
- > Asset finance

But a key factor to developing the digital finance market is development of the digital finance ecosystem. This means developing acceptance of digital as a means of transacting by retailers, service providers, business, government, etc.

We already see in the MNO's airtime advance, which is essentially a loan offering scheme. This product helps build awareness on the concept of credit repayment and fees to customers, while, at the same time, providing rich data to profile them.

This can be thought of the building blocks for the foundation of small, general consumption loans, which can eventually be upgraded to business-oriented loans.

STORIES FROM THE VOICE OF THE BENEFICIARIES



M-PESA EARNINGS ALLOWS A YOUNG WOMAN TO PAY UNIVERSITY FEES

Laurinda Francisco Langa is a 27 years old woman who was born in a large family of 8 children in one of Maputo neighbourhoods, and whose parents didn't have enough money to pay for her school fees.

She works as a super-agent for m-pesa, selling float to other m-pesa agents making 0.75% per deposit, and as an agent herself, making 5MZN for each new registered client, 0.6% and 1.5% on each client deposit and withdrawal, respectively.

The income from the m-pesa business have empowered her to pursue a university degree in electronics engineering (she is currently in fourth year).

“My earnings through M-Pesa are not just helping me to pay my school fees but they also empower me at the household level” – said Laurinda.

IN MOZAMBIQUE, FSDMOÇ IS PILOTING THE DEVELOPMENT OF SOME OF THESE DIGITAL FINANCIAL SERVICES.

DIGITALIZING SAVINGS GROUPS FORMATION AND RECORDS

FSDMOç has been supporting savings groups formation through digitalization to improve the efficiency and governance of the groups, this was done with our partners CARE and Aga Khan Foundation (AKF). Under the partnership with AKF a Savings for Change approach was piloted and with CARE a E-recording digital solution were tested. Both technologies have been widely accepted by the savings groups members and the results of the pilots confirm that there is no doubt that Savings Groups

clearly presents strong potential for financial inclusion particularly for lower-income segments. The project has been highly successful, up to date the project has worked with 177 groups comprising of close to 3.833 members were active as at March 2018.

Moving forward, with data from digitized savings groups and a tiered KYC structure from the regulator, we foresee FSPs serving this population segment, enabling them to reap the benefits of being financially included and, ultimately, improving their economic resilience.



OLD VERSION



NEW SOLUTION

TRANSPARENCY
RELIABILITY
SECURITY
ACCURACY AND SPEED
SIMPLIFYING SHARE-OUT
MONITORING
ACCESS TO DATA
COMPLIANCE

RURAL BANKING

We have supported partners to pilot rural banking digital platforms to reduce cash circulation, promote financial

awareness on savings and funds management, improve access to goods and services as well as increase bank presence in rural areas.



Agent banking models helping to improve financial services in remote areas of Inhambane and Tete Provinces.

BASED ON AN UNDERSTANDING OF CLIENTS NEEDS AND THE PROCESS OF DESIGNING SOLUTIONS WE CAN NOW SOLVE SOME OF THE MARKET INFRASTRUCTURE CHALLENGES.

First, we need to build capacity in the market to understand digital financial services. Digital financial services is now recognised as a distinct profession, and building this capacity in Mozambique presents a challenge as well as opportunity. Working with the Digital Frontiers Institute

we are supporting a cadre of professional with the skills to drive and support the innovations in the financial market, and creating a community of practice with digital finance skills.



Mauro Banze one of the DFI scholars during the hackathon (solution development competition) at the Espoo in Finland.

One of digital money course scholars a software developer pursued his studies in the digital area in Finland and he participated at hackathon (solution development competition) at the Espoo in Finland and won a prize.

For more information about the challenge follow the link:
<https://campaigns.tieto.com/intrumhack#challenge>

Secondly, we need to support adoption of digital finance by providing Fintech literacy to the market. We are working with financial service providers and organisations such as Fundacion Capital to design easily accessible financial literacy tools to explain how these new digital solutions work. Cash is still king, and communities do not often understand and trust electronic payments over a POS and mobile platform. Also cash gives more bargaining power than when you pay electronically.

But our work shows that with the right information, adoption is on the rise.

Thirdly, building more traffic on the digital finance highway will require inter-operability between banks and mobile

operators, and among mobile operators (multilateral interoperability). This will increase volumes of transactions to make digital financial services a value proposition for Mozambicans, particularly in rural areas.

We brought clarity to the interoperability concept by convening key industry stakeholders to discuss their understanding of the content. FSDMoç further believes that the initiative will accelerate the implementation of an Inter-operable payment system which will operate under the SIMO. Switch This Switch will allow the implementation of fast-payments in a Pull-Payments architecture.

“FSDMoç worked with industry to setup rules for bank – wallet as a result we start seeing bilateral agreements between banks and MNO’s.”

FSDMoç worked with industry to setup rules for bank – wallet as a result we start seeing bilateral agreements between banks and MNO’s. The future is to work on interoperability between wallet and an ideal situation is multilateral interoperability. The Honey comb below represents the Mozambique interoperability ecosystem and FSDMoç intervention aim is to contribute to build linkages within the ecosystem. At the moment Government, ATM/ POS and Commercial Banks are linked.



The Honeycomb represents the Mozambique interoperability ecosystem and FSDMoç intervention aim at build linkages within the ecosystem. At the moment Government, ATM/POS and Commercial Banks are linked.

WHAT DOES THE JOURNEY SO FAR TELLS US ABOUT ADAPTING REGULATIONS AND POLICIES TO THE CHANGING FACE OF THE FINANCIAL SECTOR AS IT LEAPFROGS TO THE DIGITAL ERA

Supporting the evolution of financial sector policies and regulation is one of the three pillars to achieving a vision of financial inclusion and economic empowerment to all Mozambicans, along with HCD, and financing financial innovation and expansion. Our work with BdM and INCM is on revisions of specific legislation and regulations to keep up with market changes in the digital finance landscape. We are also working with financial sector authorities on the building blocks for capital markets development and attracting private equity.

ADAPTING REGULATIONS FOR FINTECH

BdM and FSDMoç recently launched the Regulatory Sandbox within the Central Bank premises. Five Fintech companies with innovative financial solutions will be operating from these premises.

The sandbox creates an opportunity for development, testing and demonstration of products in a supervised environment, learning and dissemination of innovative ideas, and above all, the interaction between the regulators



Family picture with the first cohort of Fintechs during the launch of Sandbox Incubator, on the 17th May 2018 at the Central Bank.

and the Fintechs towards the creation of regulation in the digital era is essential. This initiative is in accordance with the Mozambique Financial Inclusion Strategy, which, at its core, promotes the development of innovative solutions to improve access and usage of financial services. In this

first cohort of sandbox there are going to be addressed problems related to KYC requirements, Payment aggregators and cross-border remittances.

“We supported the design of the strategic plan for the stock exchange (BVM) and we will continue to support them to be a key player in building awareness, communication and positioning, legal and regulatory reform, and ensure better access of SMEs to capital markets.”

BUILDING THE FRAMEWORK FOR PRIVATE INVESTMENT AND CAPITAL MARKETS

We have worked on both private equity and capital markets to identify barriers to growth and recommend changes in the regulatory framework, and strengthening of the Mozambique stock exchange.

The results of the study conducted on private equity show that the legal framework has been in existence for about 2 decades and allows, apart from private equity firms, institutions authorized by the central bank such as commercial and investment banks. The main constraints are:

- > There is no provisions for business angels, despite the fact that the country already has a significant upper middle class.
- > Lack of independent regulatory authority;
- > Lack of personnel specialized in private equity in the regulator;
- > Negligible participation of authorized investors (insurance companies and pension funds);

- > Dispersed efforts to provide technical support, mainly from non-governmental organizations and non-existence of professional incubators, which would accelerate the process of making companies investment ready.

This scenario is a reflection of a non-existent supporting ecosystem along with an inadequate regulatory framework. Improvements can be achieved by advancing reforms in the fiscal and regulatory domain, forging public private partnerships to raise awareness and train personnel, coordinating technical assistance programs as well as aligning economic policies to foster entrepreneurship and concrete action plans to benefit from growth enabling qualities of private equity.

We supported the design of the strategic plan for the MOZAMBIQUE STOCK EXCHANGE (BVM) and we will continue to support them to be a key player in building awareness, communication and positioning, legal and regulatory reform, and ensure better access of SMEs to capital markets.



The launch event of the private equity legal framework study on 30th January 2018



Panel discussion with our special guest from Namibia and South Africa

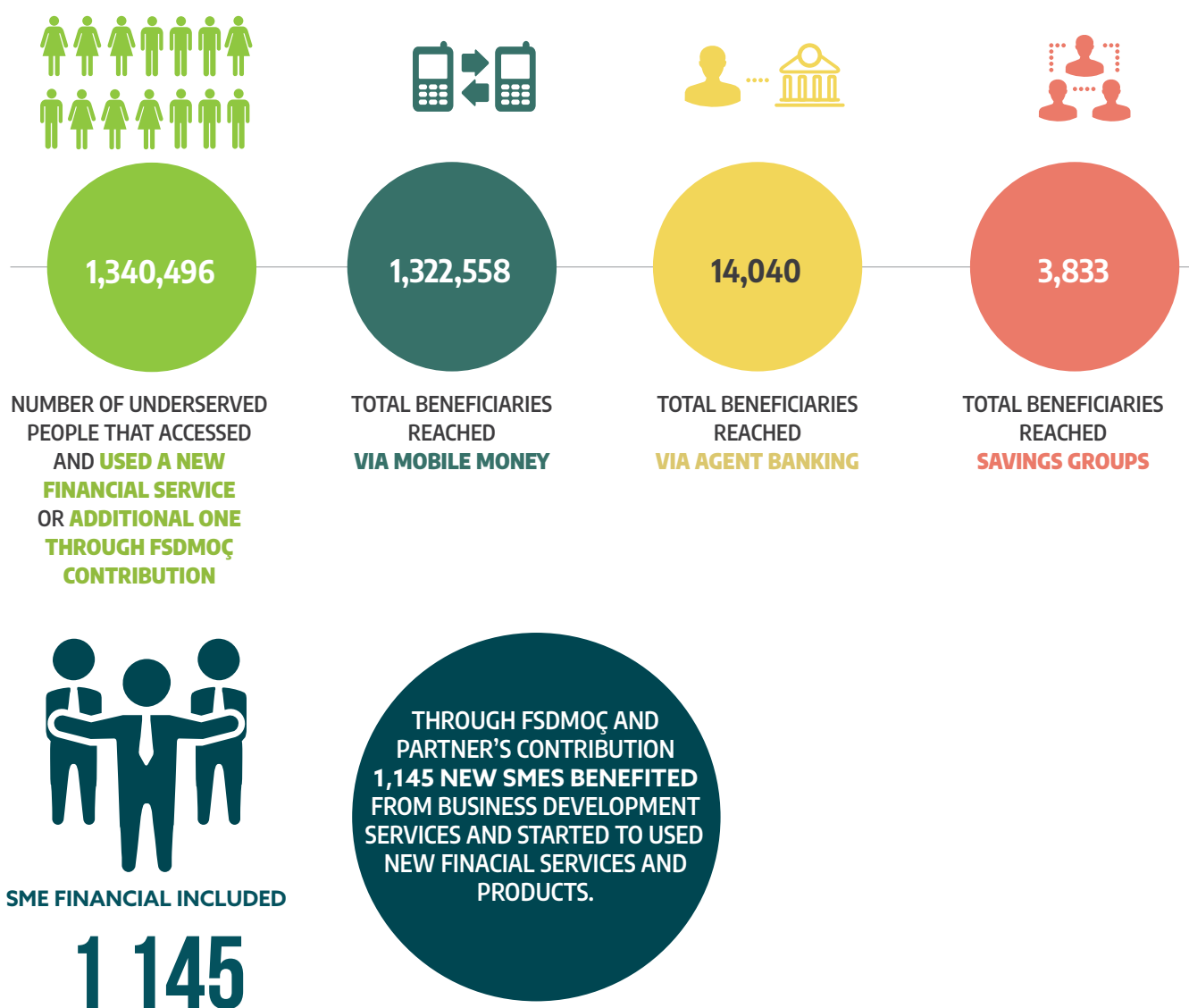


From left to right, the BHC, FSDMoç CEO and BVM CEO

02

FSDMoç by numbers

“There is an improvement on financial inclusion figures and from the last data of FINSCOPE appointing to 14,4 millions of adults above 16 years old (age at which a bank account can be opened) financially excluded. Comparing the number of excluded in 2009 which is 11,2 million (78%) and excluded in 2014 which is 8,6 million (60%). Mobile Money usage only 3.3% used mobile money in 2014 (470,000 people)”. The figure below represents FSDMoç and partners contribution to financial inclusion numbers.



03

Our partners



04

Things to watch going forward

In order to continue to make progress in achieving the national financial inclusion targets of 60% of adult population with access to financial services that are meaningful -we need think BIG and BOLD, and LEAPFROG into the digital world.



CYBER SECURITY



CREDIT SCORE



PROTECTION OF DATA



MICRO INSURANCE



DIGITAL IDENTIFICATION



GEO SPATIAL MAPPING



ADOPTION OF NEW TECHNOLOGIES
(E.G. BLOCKCHAIN)



TECHNICAL SHEET

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Av. Armando Tivane, no. 849, Maputo, Moçambique
Tel: +258 21 485 955 .
Email: fsmoc@fsmoc.com
www.fsmoc.com

