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ANNUAL PUBLICATION



DIGITAL TRANSFORMATION,
INNOVATION AND
PROGRESSIVE CHANGE



FSDMoç Annual Publication

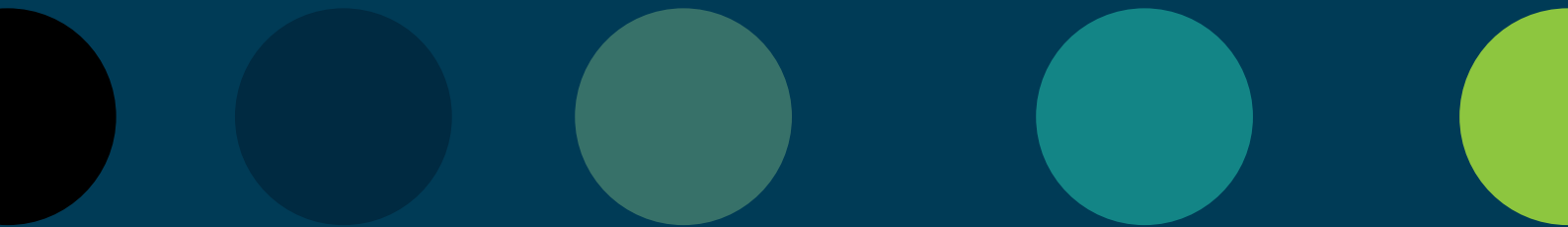


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ACRONYMS AND ABBREVIATIONS



AFI	Alliance for Financial Inclusion
AKF	Aga Khan Foundation
APIs	Application Programming Interfaces
BDS	Business Development Services
BiG	Banco de Investimento Global
BM	Banco de Moçambique
BVM	Bolsa de Valores de Moçambique
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
DD	Digital Disruption
DFI	Digital Financial Institute
DFS	Digital Financial Services
DFID	Department for International Development
DFS	Digital Financial Services
FSDA	Financial Sector Deepening Africa
FSDMoç	Financial Sector Deepening Moçambique
FSP	Financial Service Providers
FY	Fiscal Year
GESI	Gender and Social Inclusion Strategy
GIS	Geographic Information System
HCD	Human Centered Design
INE	Instituto Nacional de Estatística
ISSM	Instituto de Supervisão de Seguros de Moçambique
KYC	Know Your Customer
M4P	Making Markets Work for the Poor
MFI	Micro Finance Institutions
MNOs	Mobile Network Operator
MMO	Mobile Money Operator
MoU	Memorandum of Understanding
MSD	Market System Development
PAYGO	Pay-as-you-go
PDE	Spatial Development Programme
P2B	Payment to Business
P2G	Payment to Government
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprise
USSD	Unstructured Supplementary Services Data



ESSELINA MACOME

CEO'S NOTE

This year publication has two main objectives: (i) it provides FSDMoç's contribution towards the digital highway started last year for a better financial ecosystem in Mozambique; (ii) it ensures that we remain accountable for what we do to the millions of people who are underserved by financial services our partners and our donors. This year's theme is about: digital, transformation, and progressive change.

FSDMoç sees financial inclusion in three dimensions namely, **access, usage** and **quality** of people's life. There are various publications repeating on how digital, innovation has moved access. There is no doubts that more need to be done to increase usage of financial services in Mozambique. "Although we will not be able to quantify accurately the scale of the progress until the next round of the Finscope Survey 2019, data coming from leading institutions prove a positive progress, highlighting the role of digital financial services in accelerating financial inclusion in Mozambique."

FOR FSDMOÇ DIGITAL HIGHWAY MEANS:

Traditionally, regulatory institutions are risk averse, often opting for more stable options. This is why the introduction of innovative approaches, such as the Sandbox, can enhance stability and inclusion. Regulators have the opportunity to improve their regulatory capacity using technology to produce better regulation. As the market keeps innovating, regulators have to keep the pace, continuously developing themselves. Means a commitment of the Government to push the financial agenda forward this means that a is needed and the sandbox is a good example on how changes in the regulation is a positive.

Understanding clients' needs (consumer centricity) is key because customers are sensitive to financial products (price and delivery channels), therefore, when building a solution the end user shall be placed at the center.

Through innovation, FSDMoç and partners contributed for a better access and usage by delivering financial services and products for the market. This was possible by using technology to leapfrog financial product development and market access, such as digital platforms like mobile money, which allowed us to reach nearly 1,2 million individuals Mobile money is providing banks with a technological platform to manage micro accounts and to reach people at the bottom of the pyramid.

Through digitalization and technology, we contributed to solve the problem of physical distance and costs by piloting the agent banking models. Are happy for the fact that they can now access the formal banking system without restrictions given by travel and opening times, reducing the costs of accessing their accounts and having their accounts at hand through the agents.

Digitalisation has allowed the emergence of new players, such as Fintech's, and the rolling out of sustainable business models which cut across all sectors of the economy

As we will continue building this highway by pushing for financial inclusion in key areas such as: Interoperability, Digital ID, regulatory technology as we believe that these aspects have to move together to encourage sustainable and tractable innovation.

Lastly, I would like to thank all our partners and the industry for the support provided in this journey. FSDMoç sees all of you as key players to drive digital financial inclusion objectives in the country and we believe that together in a collaborative way we can contribute to economic and social growth just by ensuring provision of basic services to the majority of Mozambicans.



FSDMoç 2018/2019 HIGHLIGHTS

This publication summarizes our views on the developments in the market over FY2018/2019 and describes the activities in which we've been involved.

Through this publication FSDMoç highlights achievements accomplished with DFID and Swedish funds in the following key result areas.

POLICY & REGULATION

- > Progress work on Sandbox
- > Interoperability
- > Microinsurance road map
- > Private equity framework
- > Capital markets



PILOT AGENT NETWORK MODELS (DEVELOPING SOLUTIONS)

- > Mobile money
- > Agent banking

PILOT PAY-AS-YOU GO MODELS

- > Credit scoring prospectus
- > Asset finance model

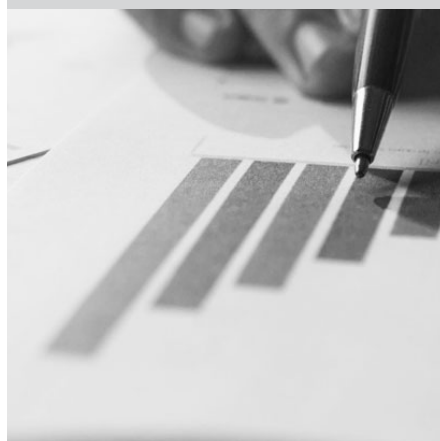
STRATEGIC AND FACILITATIVE ROLE

- > Consumer protection and cybersecurity
- > Blockchain
- > Digital identity
- > Alternative finance for SMEs
- > Moztech
- > Use of data (financial inclusion section at population census - INE)

FOSTERING INNOVATION AND EXPANSION

Building skills & transferring knowledge:

- **DESIGN THINKING (or HCD)**
 - > Certificate in Digital Money
 - > Leading Digital Money Markets



FSDMOç BY THE NUMBERS

- > FSDMOç reached cumulatively 1,567, 809 individuals, training 71 staff members of financial institutions in DFS, 17 representatives of FSPs on the HCD approach and 40 professionals on GIS.

GENDER AND SOCIAL INCLUSION STRATEGY (GESI)

> FSDMOç developed its Gender and Social Inclusion Strategy (GESI), with the goal to have a responsive financial sector, ensuring equitable and fair access and usage of financial products and services to women, men, youth and people living with impairment. Through GESI, we will be able to support activities aimed at empowering women and develop solutions tailored for their needs, including women hackathons and savings groups membership which are dominated by women.



APPROACH AND STRUCTURE OF FINANCIAL MARKETS

All FSDs' work is essentially aimed at trying to make financial markets work better for the poor what is known today as the "M4P approach".

The Market System Development"

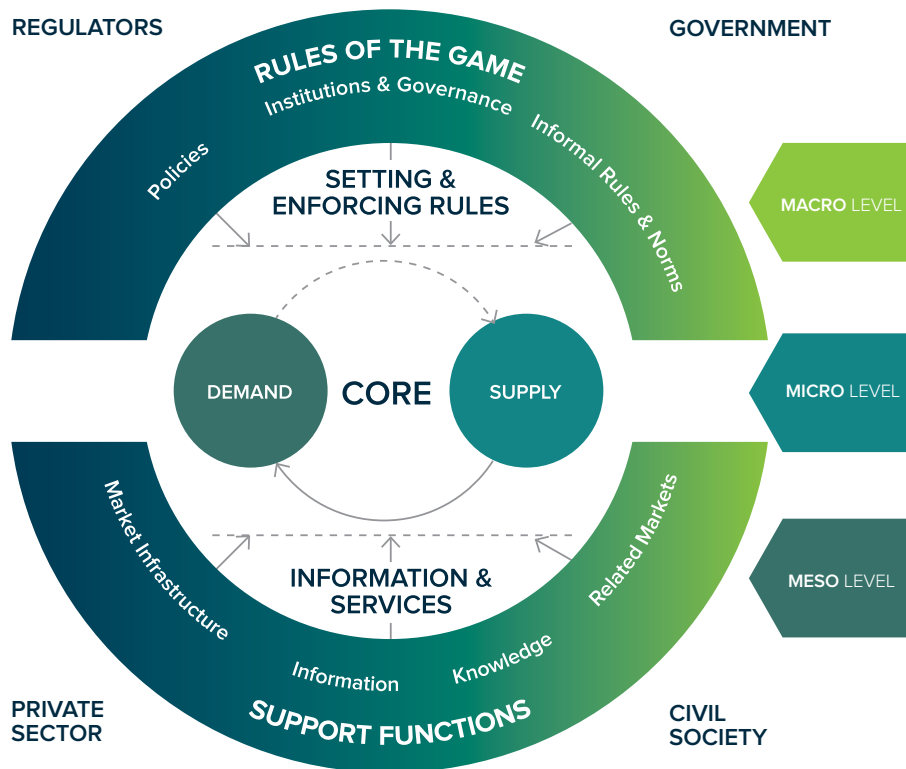
(MSD), has been defined as, an approach to develop market systems that benefit poor people, offering them capacities and opportunities to enhance their lives.

It builds on a detailed understanding of market systems and a clear vision of the future, M4P allows agencies/institutions to address identified market systemic constraints and bring about large-scale and sustainable change. Market development requires addressing challenges at three levels:

> **Macro level:** Includes government and social norms which shape incentives, behaviour and practice of market participants. They achieve this through legislation and regulation; Policies and standards and Social norms and informal rules (basic framework within which financial service providers operate);

> **Micro level:** Acts at retail providers level who deliver service, to enable developing practical know-how around providers, it acts at the heart of market development;

> **Meso level:** Includes functions that enable the market to work effectively, and include: Infrastructure (e.g: physical markets, storage facilities, and commodity exchanges etc) Knowledge and information; complementary or related markets (inputs, finance, BDS etc...)



Our goal is not to provide short-run fixed solutions, but support sustainable development in markets which will deliver long-term solutions, by working with partners to boost financial literacy and build economic resilience among Mozambique's communities. The end goal is to offer a broad range of quality financial services provided by a stable and competitive financial system in a way which benefits the livelihoods of under-served and low-income groups.

FSDMoç vision recognises the need for a greater focus on the financial sector, offering quality services that enable resilience and economic empowerment for all Mozambicans. We use research, evidence, data and analysis to help market actors to better understand the needs of the demand side which includes: smallholders farmers, small businesses, women, youth and rural communities. We provide knowledge and know-how to our partners and others, to build the business case for providing appropriate and accessible financial services and products.

SUPPORTING THE DEVELOPMENT OF DIGITAL FINANCIAL INCLUSION



2

OVERVIEW OF FINANCIAL INCLUSION PATHWAY AND LINKAGES WITH SDGs



2.1

FINANCIAL INCLUSION WHAT DOES IT MEAN?

There is no agreed definition, Finscope has defined it as the number of adults “who have or used a financial product or service” (Finmark Trust, 2015). This is a wide definition since the conflation of “have” and “use” means that account holders with vast different usage scenarios are all deemed to be financially included. Drawing on a wider range of sources, it’s possible to define financial inclusion more specifically as uptake of useful, available, affordable financial product or service that meets the needs of all groups in a society (World Bank, 2018) (Sarma, 2012), (Finca 2018). There is a growing consensus on following three key components namely, Availability, Uptake and Usage:



Source: Rust_FSD_Mobile Money



In Mozambique still a long way on the journey to ensure effective usage of financial services...

2.2

FINANCIAL INCLUSION STRONGLY ANCHORED AS AN ENABLER TO PUSH SDGs

Digital Financial Services have transformed the structure of the financial sector. There are no doubts that digital and technology are empowering people in various dimensions of the SDGs. Throughout our interventions, FSDMoç contributed to SDGs 4, 6, 7, 8, 9, 10 and 11, further detailed below:

QUALITY EDUCATION (SDG 4): with the work we are doing on PAYGO models for solar energy, we are helping rural communities access affordable energy we are helping rural communities access affordable energy, which in turn means more time for studying and doing business. Simultaneously, we are also using digital payments platforms to bring convenience to settle payments to educational institution.

CLEAN WATER AND SANITATION (SDG 6): We see the potential to use solar panels as a source of energy to extract clean subsoil water for human consumption and irrigation fields, which will help improve the lives of those affected.

AFFORDABLE AND CLEAN ENERGY (SDG 7): Working with two PAYGO companies, we increased access to affordable and clean energy using mobile money as a means of repayment. As a result of these interventions, nearly 13,000 individuals representing household families became financially included. Also, the system generated data which is being used to profile good customers that can qualify for a bundle of services. and one of them being access to direct finance from formal financial institutions.

DECENT WORK AND ECONOMIC GROWTH (SDG 8): Piloting agent banking models both (Letshego and BancABC) they use tablets and smart phones and biometric ID verification technology to provide financial services and drive growth among micro and small business enterprises.

INDUSTRY, INNOVATION AND INFRASTRUCTURE (SDG 9): As we further explore the financial needs and the potential to serve women, youth and smallholders in the rural areas, we catalyse innovation and help to inform where the infrastructure is needed. Also, we are contributing at the meso-level facilitating discussions on the infrastructure for a well-functioning payment ecosystem, including the interoperability between banks and MNOs, and now we are moving a step further to incorporate interoperability between MNOs. This discussion includes the use of open APIs (Application Programming Interfaces) to bring non-financial institutions to be part of the ecosystem.

REDUCING INEQUALITIES (SDG 10): FSDMoç conducted studies to understand financial needs of the populations at the bottom of the pyramid including women, youth and smallholders. With financial institutions we are promoting the usage of design thinking techniques to ensure that new products and services respond to the needs of the most vulnerable. As the payment ecosystem gets more dynamic we expect the costs of transactions to drop, including the cost of remittances.

SUSTAINABLE CITIES AND COMMUNITIES (SDG 11): Jointly with our partners we contribute to access decent housing and also to build the cashless ecosystem via interventions like e-ticketing.





The expansion of mobile money, the entry of agents and now with FinTechs, the face of financial services in the country has changed...





3

FSDMoç
CONTRIBUTION TO
DIGITAL HIGHWAY



THE FOLLOWING SECTION HIGHLIGHTS THE MAIN ACHIEVEMENTS AND CHALLENGES FACED IN THE DEVELOPMENT OF THE DIGITAL HIGHWAY:



In 2018 FSDMoç commissioned a study on the ecosystem of digital financial services in Mozambique and the results were shared with the industry in May 2018. The study showed that DFS has allowed expansion and diversification of service offering ranging from P2P transfers and bill payments, to merchant and bulk payments, credit, savings, insurance and value-added service such as PAYGO systems. One of the success stories on DFS and innovation in Mozambique is the case of mobile money

services specifically with M-Pesa, which has transformed the way approximately 3 million Mozambicans move money through its mobile money transfer system using a basic mobile phone. Other mobile platforms in operation include (m-Kesh and e-Mola) which are also contributing to mobile money market ecosystem FSDMoç digital lens are aligned with National Financial Inclusion Strategy (2016- 2022), and we are also contributing for the implementation of the strategy, being part of the three technical working groups namely : (i) Access and use of financial services; (ii) Strengthening of financial infrastructure and; (iii) Consumer protection and financial literacy; which are all aligned with the pillars of the Strategy. The Central Bank of Mozambique is the coordinator of the implementation.

The Strategy sets up overall targets of reaching 40% of the adult population with physical or electronic access to financial services offered by formal financial institutions by 2018 and 60% by 2022, this is based on the observed progress of financial services offered based on digital platforms worldwide. FSDMoç along with other financial inclusion stakeholders is working to contribute to the achievement of Government targets.

“Digitization enhances the reach of financial services, which can now be accessed not only through a mobile phone but also at the community kiosk with no restrictions, going the extra mile... it opens the ability for the customers to transact where they are”...

Another benefit is the digital leading, where banks have recognized the value of integrating digital technologies (to open accounts) to enable their agents to enhance reach of financial services as well to drive down costs. This includes the bundling of their agency model with a biometric identification which speeds account opening process, by reducing KYC requirements. It has also allowed banks to be more inclusive engaging more marginalized customers such as illiterate woman as biometric allows access to accounts opened with just the finger. Retina authentication has also been considered if customer's fingerprints cannot be read.

Tamara Kangombe BancABC
Management Corporate and Strategic



DIGITAL HIGHWAY FOR FSDMoç MEANS

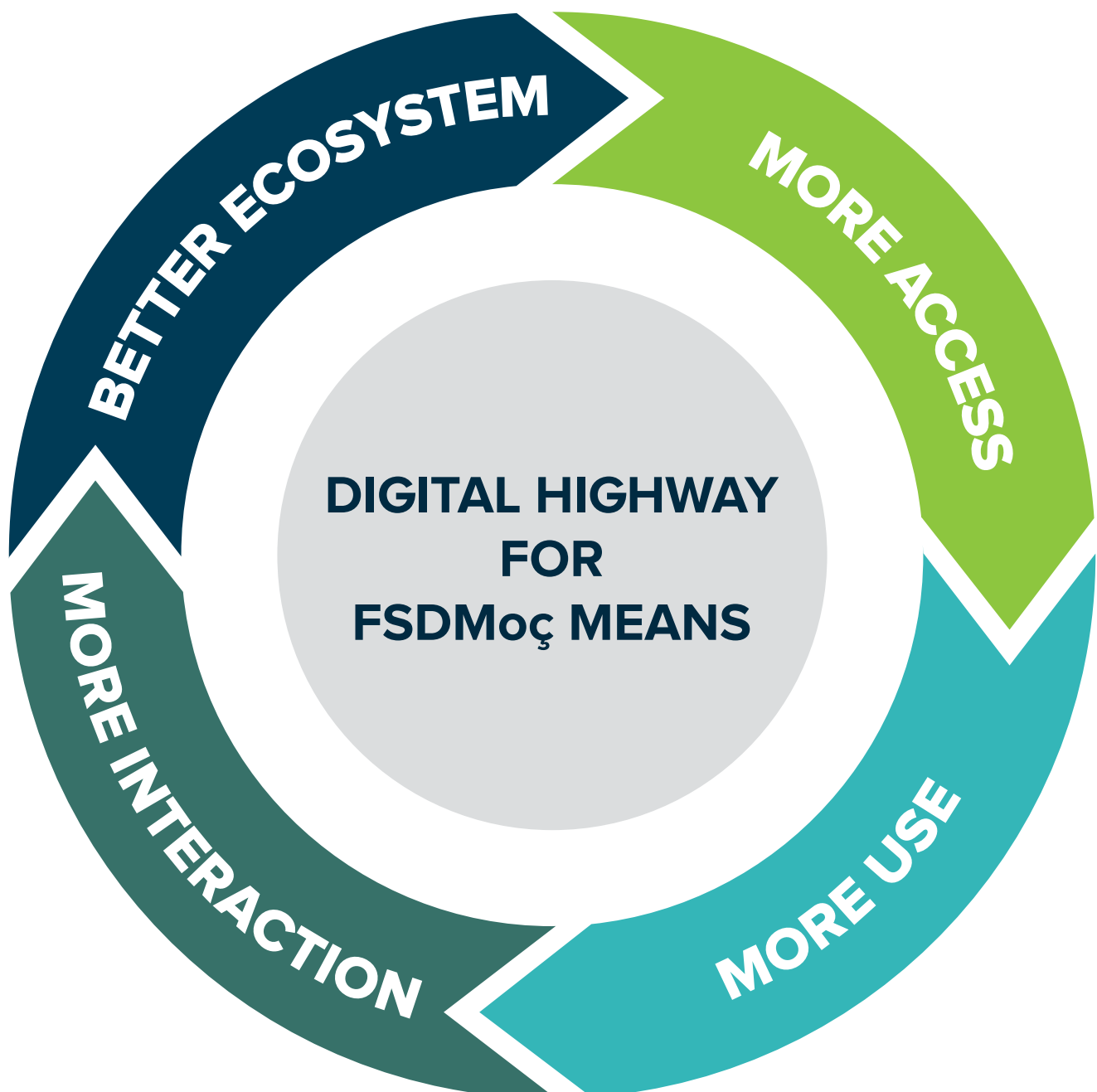
MORE ACCESS

MORE USE

MORE INTERACTION

BETTER ECOSYSTEM

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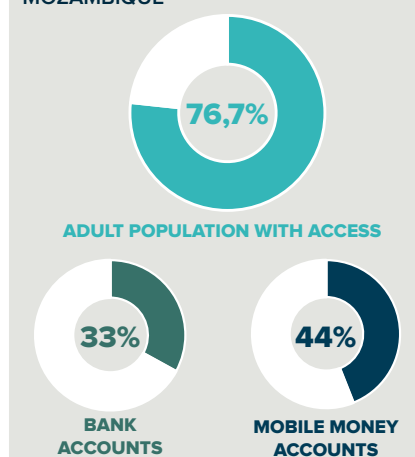


3.1

“CONSTRUCTION” OF MORE ACCESS AND USAGE

Since the last Finscope 2014, Mozambique has made significant progress in a number of areas that would contribute to improve numbers of financial inclusion. The 2017 Financial Inclusion Report of Mozambique indicates that 76.7% of adult population gained access to physical or electronic financial inclusion services (of which 33% is the contribution of financial institution and the 44% from mobile money). This shows a remarkable improvement in accessibility of financial services as a result of uptake of mobile financial services as well as the growth in the proportion of adults with access of a financial service point in recent years via mobile money. It is worth to mention that there is duplication on the number of included via bank versus mobile money and this cannot be avoided unless we have a unique digital ID.

FIGURE 1: FINANCIAL ACCESS IN MOZAMBIQUE



Source: Relatório da Inclusão Financeira 2017

USING BANK ACCOUNTS TO MEASURE FINANCIAL ACCESS ...WHAT DOES IT TELL US?

Mozambique has seen remarkable improvements in accessibility of financial services in recent years. Between 2011 and 2017, the number of bank accounts has now reached 52% from (168 to 325) as shown in figure 2 and increasing uptake of mobile financial services which from 0% to 44% (see in figure 3). The growth in the proportion of adults with access to a financial access point via agents went from 23 to 197 agents per 100,000 adults (see figure 4).

FIGURE 2



**BANK COUNTS
PER 1,000 ADULTS**

168 311 325
2011 2015 2017

FIGURE 3



**% OF MOBILE PHONE SUBSCRIBERS
WITH ELECTRONIC MONEY**

0% 29% 44%
2011 2015 2017

FIGURE 4



**AGENTS
PER 100 THOUSAND ADULTS**

23 126 197
2011 2015 2017

ACCESS BY GENDER

The number of women with bank accounts is increasing (see figure 5) as well as the gender gap between men and women, this may be explained by the fact that women tend to use more informal financial services. (see figure 6).

FIGURE 5



**WOMEN BANK COUNTS
PER 1,000 ADULTS**

98 178 187
2011 2015 2017

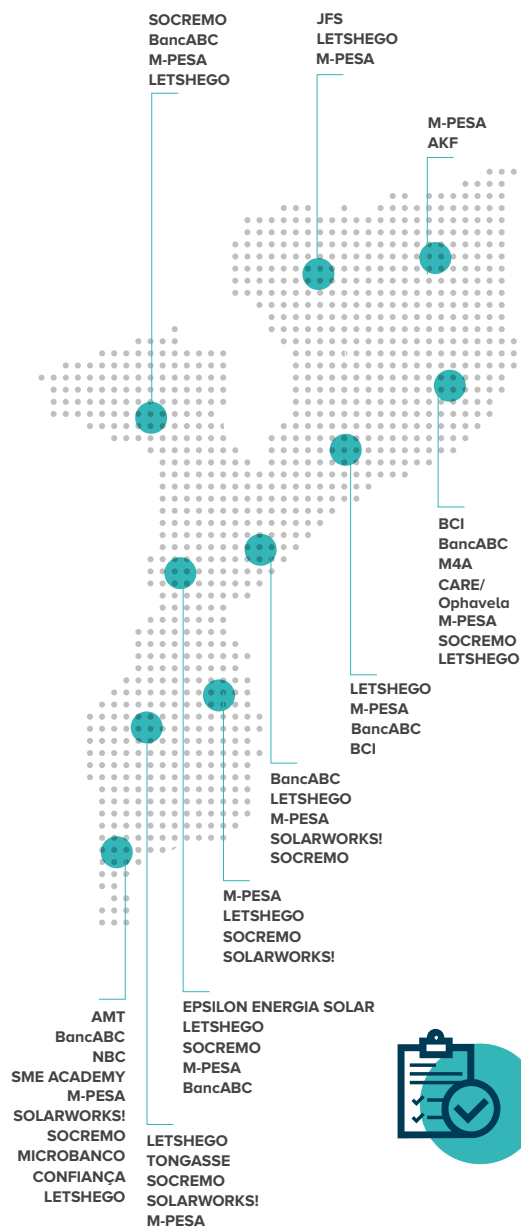
FIGURE 6



**MEN BANK COUNTS
PER 1,000 ADULTS**

233 431 459
2011 2015 2017

FIGURE 7: MAP OF MOZAMBIQUE



In terms of approach and scope, FSDMoç works across the country with all partners that respond to our goals, the Mozambican map illustrates the geographical areas covered by the program.

During the FY18/19, FSDMoç and partners contributed on improving availability and access and usage of new financial products and services. We recognise that to improve usage a lot needs to be done and we have to focus on use cases that target people at the bottom of the pyramid. The achievements include;

- > Two digital products introduced in the market by our partners BancABC, Letshego using their agent banking models;
- > Two delivery channels have been brought to the market through paygo partners Epsilon Energia and SolarWorks;
- > One digital finance loan product with Microbank Confiança;
- > One micro insurance product with NBC still ongoing;
- > One improved product informed by the design process approach/New service offering with BCI for rural baking;
- > With JFS/Letshego a new digital product for smallholder farmers working on cotton value chain is being developed;
- > FSDMoç increased the expansion and availability of M-Pesa's promoters and into new locations to widen uptake of service through Vodacom M-Pesa's Pedro Strategy;
- > With Banco Unico we support the construction of capacity of SME's to make them bankable and attractive to receive finance;
- > With Bank BiG we support the preparation of 10 companies ready to be listed at the stock exchange;
- > We have supported 5 fintech's working from the Sandbox space and four are ready to start testing their solutions;
- > With Ophavela/Care we supported the development of digital solution for savings groups formation and governance (e-recording), currently the business model is being developed;
- > With AKF/UX we have supported the establishment of a private company called SOMA that aim at creation of sustainable savings groups without an NGOs as a promotor. The business model is also under development;
- > Professionals in the Mozambican market have been trained and certificate in Digital Money and Leading Digital Money Markets;
- > We have contributed for the development of ambassadors on "Design Thinking" - (HCD);

The following section highlights some of the results of our work.

MORE ACCESS THANKS TO MOBILE MONEY

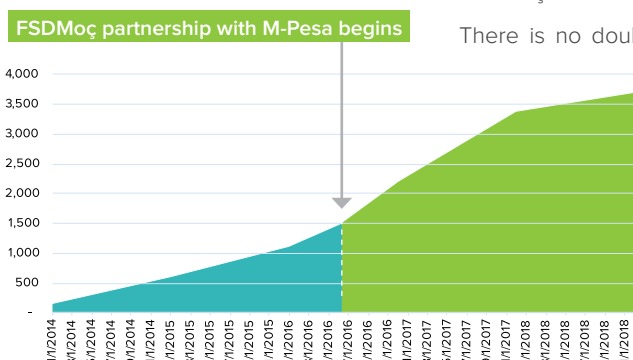
In 2016 FSDMoç supported the strategy expansion of a mobile money company - M-pesa, to expand to rural areas where traditionally have typically avoided with aim to reach underserved segments (women and youth). They support covered financial literacy of promoters and customers, and it was possible to catalyze uptake by expanding a Promoter's Model that is unique in Africa.

Through mobile money, the number of customers doubled in two years, but overall M-pesa has seen an increase of 3 million customers over which 1.2 million were FSDMoç contribution (see Figure 8).

There is no doubt FSDMoç contribution has increased availability and uptake, but great usage is needed to drive financial inclusion and poverty reduction, because, still M-PESA users are more likely to have access to banks, and for those customers, M-PESA becomes a complimentary service.

To enable excluded segments to experiment a financial service we need to engage in the new use cases such as the PAYGO system, this way we can ensure serving previously excluded individuals, non-consistent job opportunities, without education) low-income and this will drive financial inclusion. There is a need to design and promote effective usage which is essential for financial inclusion for the underserved.

FIGURE 8: M-PESA USERS IN MOZAMBIQUE (THOUSANDS)





MOVING FORMAL FINANCIAL SERVICES CLOSER TO PEOPLE VIA AGENT BANKING

In 2016, Financial Sector Deeping Mozambique (FSDMoç), to enhance inclusive financial services in rural areas/remote areas for low-income populations, partnered with two banks to pilot agent banking model as an innovation. Both models had different technology and innovation component with digital elements. From FSDMoç's perspective it was interesting to learn from each of the models to inform possible replication or expansion.

LETSHEGO MODEL

This model known as **LetsGoBlueBox** incorporates a smartphone and a tablet for agents, which can be charged by solar power in case of lack of electricity, the system allows:

- > Digital registration of clients and transaction authentication, allowing the capture of biometrics, photos and digital signatures;
- > Open a basic transactional deposit account in remote areas through an agent;
- > Provides customers with printed receipts and/or statements;
- > Financial education element which is provided by promoters or agents.

As per March 2019, Letshego through its agent network was able to financially include nearly 13,795 customers in six provinces of Mozambique.



BANCABC MODEL

Through the agent, who serves as an access point, customers can withdraw cash, make payments and deposits. The hunters, which main responsibility is of sensitizing individuals on the existence, convenience and benefits of the agency model after which they open the bank accounts, are also part of the ecosystem. Today the bank is looking at some of the best ones to become permanent employees.

As of March 2019, BancABC approximately 44,768 customers in 5 provinces were financially included.



BENEFITS OF THE AGENT MODEL

The agent model has been adopted and the driving factor has been the establishment of an effective networks of agents, and some of benefits already are visible, for instance:

> **Customers are happy because:** (i) They have more access points; (ii) is convenient due to longer opening hours; (iii) shorter waiting queues at agents compared to conventional branches; and (iv) lower transaction costs.

> **The banks are been observing:** (i) an increase in the average monthly transactions per person increased and (ii) an increase on average value per transaction.

> There is a positive response from the industry, we see FSPs exploring other products to sell through their agent networks (e.g. access to formal and digital loans, agri-value chain financing products, etc.)

> FSPs are studying the viability for the agent network to be used as an alternative delivery channel for other customer segments such as savings groups.

Based in these two examples, we still see challenges and to overcome them, FSDMoç commissioned a study to better understand the best model of agents going forward.



DIGITALIZING OPERATIONS AND PRODUCTS TO PUSH ACCESS

To accelerate access, FSDMoç is supporting two MFI to digitalize their operations and also offering of digital products

MICROBANCO CONFIANÇA

Is operating for more than 20 years in Maputo Province, as microfinance institution, offering loans to smallholder farmers and micro entrepreneurs (traders, market vendors, service providers). It currently works as a microbank with plans to expand its product offering with a launch of Digital Financial Services (DFS). Recently, FSDMoç partnered with MBC to support the conceptualization, development and piloting of a DFS platform to bring operational efficiency.

MBC approximately 6,500 farmers which have to travel long distances to access financial services at their branches hence incurring in additional travel costs.

To resolve this issue, FSDMoç supported the identification of a local FinTech firm to assist on the development of suitable digital financial products that respond to the smallholder farmer's needs:

Through the new platform MBC will be able to: (i) reach more rural communities at a lower cost; (ii) will increase the number of customers from 6,500 to 13,000 in the next year with the new platform; (iii) will improve the default risk because, farmers now have a convenient way (using digital) to repay back their loans.



SOCREMO

is a microfinance bank, founded in 1998 and based in Maputo, Gaza, Inhambane, Sofala, Manica, Tete, and Nampula. In terms of service offering it provides financial products to the microfinance market. It also supports small and medium enterprises.

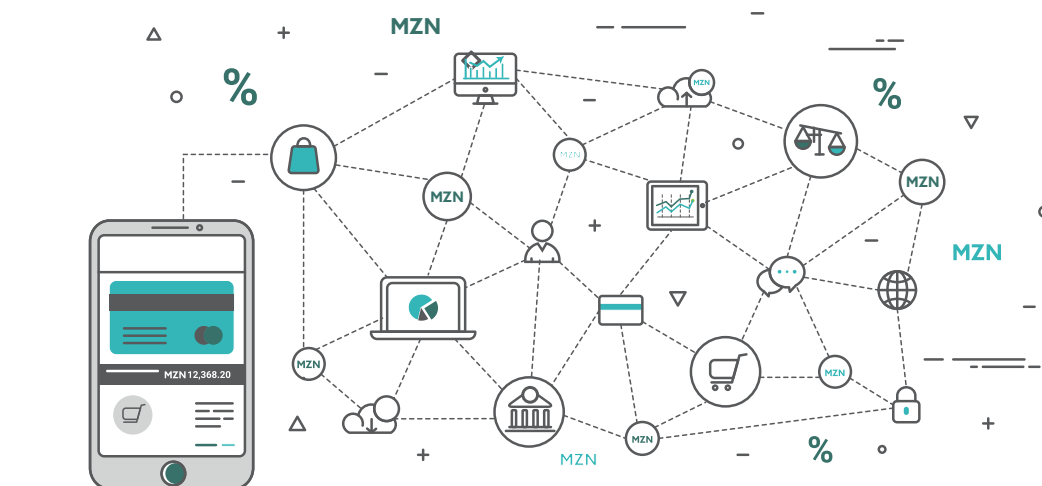
Recently, it partnered with FSDMoç with the aim to streamlining the banks current on-boarding process, which includes: shifting from a data manual collection and processing to a more innovative digital field application which is going to upgrade credit processes. Through the new platform Socremo will increase its current customer base of 47,494 to 234,772 individuals in next years, and expansion of the bank's operations branches throughout the country.





BUILDING FINTECH'S ECOSYSTEM TO TARGET PEOPLE AT THE BOTTOM OF THE PYRAMID

Today in Mozambique the presence of FinTechs (technology - that enables innovation in financial services) has changed the structure of the financial sector. Today there are considerable new actors in this space and we cannot ignore their potential and the role they can play to improve financial access. Our contribution in this space includes:



FINTECH'S ECOSYSTEM

There are multiple benefits being at the Sandbox:

(i) accrue knowledge and advisory support which would be difficult to survive in this market without it; (ii)

the dossier with the testing requirements presented to BoM was done with FSDmoc supported which was crucial during the preparation phase - by de João Gaspar, Paytek CEO.

- > A MoU with BM that aim to promote FinTechs and payments through the creation of regulatory sandbox;
- > Building on the understanding Sandbox of FinTechs landscape, commissioned a study to inform the development of a digital financial ecosystem detailing key structures required to enable it;
- > Launch a FinTechs challenge fund to engage startups and innovators to a competition to develop solutions related to provision of financial services using innovative platforms to improve access;
- > Support FinTechs start-ups to participate at the International Telecommunications event – ITU (the United Nations specialized agency for information and communication technologies) Annual Conference in Durban in September 2018. In this event the FinTechs start-ups had the unique opportunity to present their solutions and establish contacts.
- > Ivo Jenik and San Thomas De Montfort from Consultative Group to Assist the Poor (CGAP/FCA) were invited to work with the Central Bank to share and support regulatory sandboxes & financial inclusion. The CGAP team is going to provide technical support to the BM in the testing and piloting phase of the FinTech solutions.
- > Vedanvi Ltd. (including Director Jay Tikam) supported and provided technical assistance to FinTechs to understand risks including addressing compliance and regulation proactively. This was done by supporting Sandbox FinTech firms to develop and structure the following documents to engage and provide reassurance to regulators.





FOSTERING INNOVATION TO EXPAND ACCESS

Working with FSPs and other financial sector stakeholders, FSDMoç recognized the gap in knowledge and capacity to accelerate financial inclusion in the digital era we believe that digital finance can be an enabler to reach underserved markets. Therefore, we have been supporting the development of Digital Financial Service (DFS) Human Centered Design (HCD) and techniques to foster rapid expansion of services to underserved segments of the population. Another area of capacity is GIS which is key for building the digital highway. Following are some of the activities undertaken with the aim to improve access:

AT MESO LEVEL:	AT MACRO LEVEL	AT MICRO LEVEL
<p>With our partners FSD Africa and Digital Frontier Institute and Fletcher School, we sponsored professionals working within FSPs to start to build foundation on digital financial service capabilities:</p> <ul style="list-style-type: none"> - To date 34 out of 71 professionals (with 37% of women) from banks, insurance and academia were sponsored by FSDMoç. There are a variety of courses, but they need to have the foundations first (which is the basic training course) and after they can take any course as needed. (este paragrafo substitui o que está em realçado a amarelo). Today, FSDMoç contributed to the creation and growth of a DFS community of practice in country. <p>Working with Digital Disruption (DD), it was possible to engage 17 representatives of FSPs on design thinking (or human centered design) FSDMoç expect to see, over the next years, innovative and disruptive solutions or initiatives from the FSPs. The idea is to build a community of Innovation Ambassadors composed by FSP's to discuss HCD approaches.</p> <ul style="list-style-type: none"> - Under the partnership with Banco de Moçambique (BM) and it was possible to train 40 professionals on GIS. Prior to our intervention, the GIS platform, which is hosted at the Ministry of Transportation / Spatial Development Programme (PDE), had no financial services layer, therefore FSDMoç facilitated its inclusion. This was possible by partnering with the Central Bank who supports FSPs to upload their data for financial services access points. 	<p>We are working with the regulators to build capacity to respond to micro and meso level innovation, and some of the initiatives includes:</p> <ul style="list-style-type: none"> - FSDMoç facilitated interoperability dialogue with industry and moved to a solution where the interoperability was led by the industry; - FSDMoç supported resolution on KYC and commission of electronic payments; - A training on GIS mapping financial access points was delivered to FSPs and now BM has data it was possible. 	<ul style="list-style-type: none"> - With Socremo we are piloting digital financial service products such as the Digital Field Application (DFA) ; - With BCI we are piloting tailored digital solutions designed using HCD to understand consumer needs; - With BancABC and Letshego, we are expanding its reach through a network of agents using digital and technology. - With NBC using HCD techniques we are supporting the design digital solutions such as digital micro insurance loan for low income segments and informal sector. <p>At meso level:</p> <ul style="list-style-type: none"> - With Epsilon Energia Solar and SolarWorks! We are piloting business models such as the platform PAYGO and digital credit scoring (P2B) - With a FinTech PAYGO we are promoting (G2P) cashless alternatives for consumers through education and awareness of digital services (e.g.: digitalizing government payment). 

3.2

MORE INTERACTION TO “OVERCOME BLOCKAGES IN THE MARKET”

Despite some progress within the financial sector there are still blockages that need to be addressed urgently to accelerate financial inclusion in the digital era, and those includes:

> **Agent liquidity and low transactions:** These two problems could be solved if there was an entity responsible for agent network management. As a response, some banks are trying to resolve the problem individually by recruiting agencies to manage agent's floats, pricing, training. There is a need to have a model that agents do not need to move and leave his business. The other point is, there is a long way to transform the means of payment to resolve liquidity issues. digital payments to reduce cash usage;

There are still challenges managing agent's documentation: The country is not yet ready to comply with the documentation required by the Notice 3/2015. There will be a specific regulation on agency banking, apart from the Notice. At district level agents tend to substitute the Alvará with the License to Operate (início de atividade) as an economic agent. There is a lot of documents missing included in the Notice 3/2015 which cannot be found at district level. There is a need to understand how those businesses work in the real life, so it can be regulated accordingly;

> **Lack of ID from customer cannot accelerate financial inclusion:** A formal ID is needed to open an account, and according to Finscope 2014 near 7 million of the population did not have a bank account/access to a financial product because of lack of a formal IDs;

> **Interoperability between MMO:** Is important to allow people using different MNOs to transact among each other and this will be possible if this blockage is removed.

> **There is already interoperability between some commercial banks and MMO:** People now are starting to trust cellphones as their banks, they need to be confident that their money is safely stored and that they can access it even in the event that the phone gets lost or stolen. Also, they need literacy to access their money in the phone.

> **Cybersecurity:** Thinking digital, there are various sources of threats that everyone is exposed to, but low-income population is more vulnerable. In mobile money many customers had their funds stolen from their accounts many times.

> **Rural penetration of mobile money service:** The M-pesa evaluation, done by FSDMoc, found that penetration rate in rural areas is (40%), still low when compared to urban which is (60%). This means that there is still need for supporting infrastructure to push mobile money services into rural areas moving forward.

> **Usage of products:** Some customers who have access to the products still don't use them because of lack of awareness and, in some cases, lack of trust.

NOTICE 3/2015 – AGENT BANKING REQUIREMENTS:

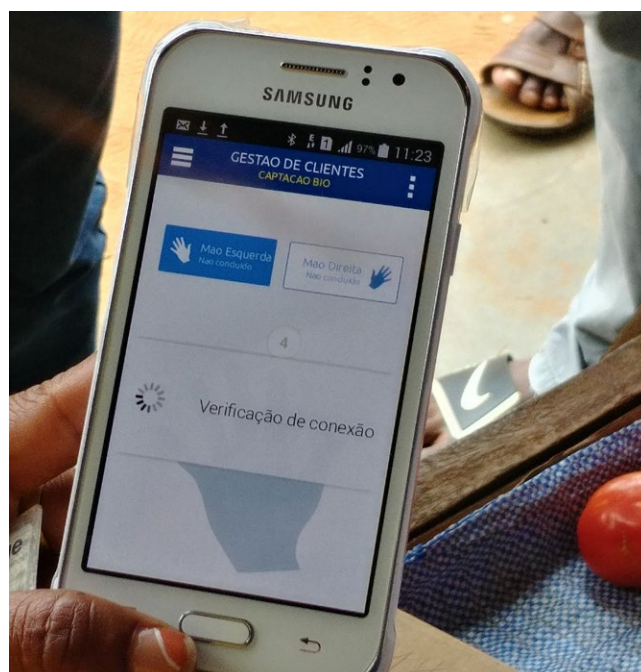
1. Name of the firm;
2. Certificate of registration of legal entities or other equivalent document;
3. Permit, valid activity license or equivalent document issued by competent authority;
4. Audited financial statements of the previous fiscal year, as applicable;
5. Certificate of discharge issued by the respective Area Directorate or tax office;
6. Certificate of criminal record of the persons indicated in paragraph 4) of paragraph 1 of this article;
7. Address and contact details; and
8. Proof of possession of financial resources or funds to ensure the activities of banking agent, especially deposits and withdrawals in cash, as applicable.

3.2.1

FSDMoç RESPONSE TO THE BLOCKAGES

“FSDMoç is conducting this study to gather insights on agency networks to inform the financial sector regulator on the most appropriate agency model and the financial sector players on the way to best approach the unserved and underserved through a network of agents and overcome low uptake and low transactions volumes...”

- > **Agent study:** FSDMoç is conducting a study to gather insights on agency networks to inform the financial sector on the most appropriate agency model and the financial sector players on the way to best approach the unserved through a network of agents and overcome low uptake and low transactions volumes. With the results we expect to test in the markets some prototypes that will enable a functioning agent network model in the financial ecosystem;
- > **Capacity Building:** FSDMoç recognizes that targeting new users through traditional uptake models will not target the poorest, therefore FSDMoç is fostering innovation within its partners to address product design capacity of FSPs which is starting to yield some results but is still early to claim achievements;
- > **Piloting use cases like PAYGO model:** With this model we are expanding access to electricity and increasing customer base for mobile money users (new and existing customers). Also the credit scoring generated through the system – access to finance will improve because will improve because the available algorithm can be used to expand can be used to expand access of other services;
- > **Mobile phone user vs. mobile money:** To increase uptake of mobile money FSDMoç partnered with Mobile for All (M4A)/Big data and big impact. The idea is to convert mobile phone users into mobile money customers;
- > **Digitalization of payments:** Recently, FSDMoç partnered with Paycode to digitalize government government payments and subsidies;
- > **Digital ID is key for development:** We are working with partners to pilot the introduction of a digital ID in a controlled environment.



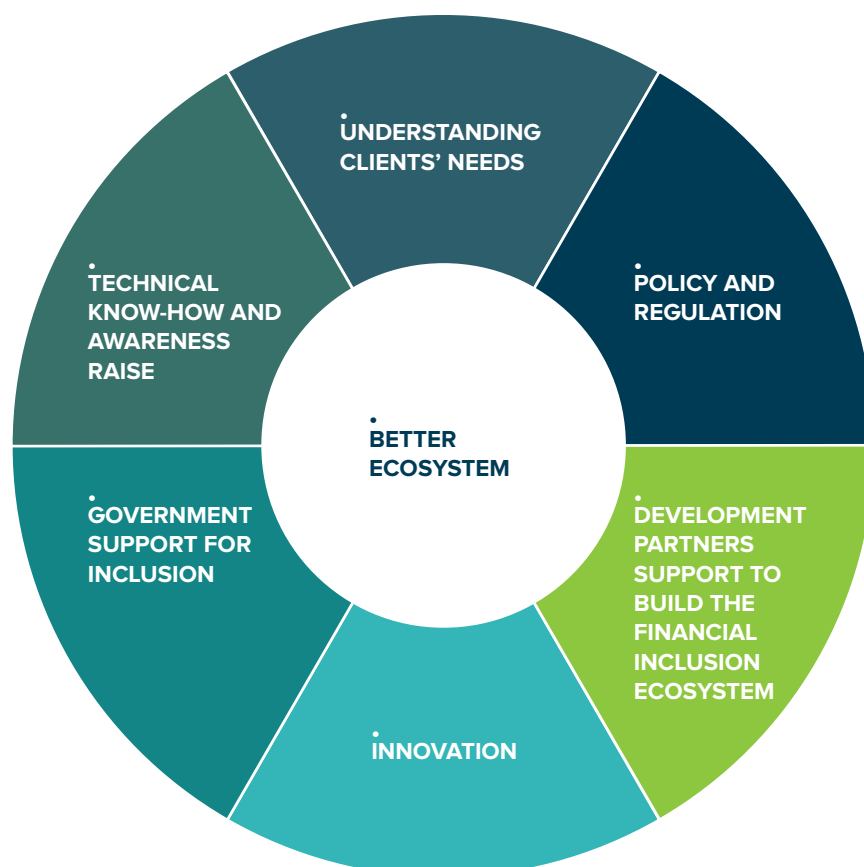
3.3

BETTER ECOSYSTEMS WHAT DOES IT MEAN?

In May 2018, FSDMoç commissioned a study as a contribution to the debate on “The Ecosystem of Digital Financial Services in Mozambique.” The study concluded that emerging Digital Innovations is taking place in Mozambique and the following key dimensions are required to develop the digital ecosystem: We need all stakeholders involved in the ecosystem including: Private Companies, Regulators, Development Partners and Government. The study also provides an overview of enabling environment factors such as: (i) quality of business environment, (ii) degree of competitiveness in the economy and (iii) innovation environment in the country.

Digital technologies are being used to accelerate financial inclusion in Mozambique. The key mechanisms identified that already is being introduced in the market include mobile money, digital distribution of financial services, There is already interoperability between some commercial banks and MMO: payment systems, biometric data analytics and alternative lending adjudication systems, digital distribution of insurance services (being the last one in its incipient stage).

The following infographic represents a consolidated taxonomy for disruptive innovation in the financial services industry was designed by Monitor Deloitte for the World Economic Forum. The taxonomy identifies 6 areas of digital trends:



“Digital technologies are being used to accelerate financial inclusion in Mozambique. The key mechanisms already being introduced in the market include mobile money, digital distribution of financial services, interoperability of bank-MMO payment systems...”

3.3.1

OUR JOURNEY TOWARDS THE DIGITAL HIGHWAY

One year after the study on “Ecosystem of Digital Financial Services in Mozambique”, we observed positive trends in terms of developments on various areas of the digital cluster in different dimensions. The following section provides progress observed in the market:



POLICY AND REGULATION

- > **Basic account:** In this regulation the issue of tiered KYC was included and the possibility to reduce the age for opening account from 21 to 15 years old;
- > **Payment service providers and FinTech regulation:** This regulation is part of the payment system law and will define the terms and condition that PSP or FinTech to operate in the payment system ecosystem in the country;
- > **Sandbox regulation:** is ongoing and the main objective is to define and scope conditions for entering in the Sandbox and also the modus operandi in this space;
- > **Interoperability:** it is a given fact that banks and mobile money operators have made financial services more available. Discussions have already started around interoperability among MMOs;
- > **Consumer protection:** There is need to ensure that customers are getting effective, affordable and secure services. In this area, more work needs to be done with the digital moving forward and we may include:
 - New technologies might raise concerns or questions, thus the need to have people trained in the new subjects of digitalization;
 - Data privacy: customer's data is a gold mine of digital finance but when misused it could destroy customer's trust;
 - Cybersecurity threats: measures to prevent or mitigate fraud need to be constantly updated and enforced;
- > **Microinsurance Road map:** which outlines a stronger foundation of microinsurance in Mozambique and guides all stakeholders towards a mature and sustainable microinsurance sector.



UNDERSTANDING CLIENTS' NEEDS

- > **The role of insurance:** For insurers the accessibility to digital financial services is relatively low, as they are still in their embryonic stage;
- > **The role of infrastructure:** For telecommunications, the accessibility is high, as the network covers a larger geography and platforms (USSD) can be developed using a basic cell phone without it being a smartphone. The issue of literacy has been a major constraint and reduces the rate of accessibility to digital financial services;
- > **The Role of Data availability and usage:** Through the indicators of supply, about 36% of the population is banked. However, it is considered that the level of accessibility of services is high. Data can accelerate financial inclusion in various dimension:
 - Acquisition of new customers;
 - Customer Relationship Improvement;
 - Risk Management;
 - Decision-making support;
 - Process automation;
 - Business model Innovation.

There is data from different sources that can be used to understand who is the client before collecting a massive dataset. FSDMoç is contributing in various initiatives:

- **FinScope:** Use data to do deep dives to inform product design and strategies;
 - **GIS:** How GIS data can be used to inform expansion strategies;
 - **M4A & M-pesa :** The aim at increasing the conversion of Vodafone customers into M-PESA
 - **Credit scoring:** Data on credit performance can help on the expansion of other services to include low-income groups ;
 - **I2i:** Understand and map data analysis and use by FSPs
 - **CGAP:** CGAP through Financial Diaries and Census collects data than be accessed through the Smallholder Families Data Hub, to access follow the link: http://www.cgap.org/sites/default/files/small_holders_data_portal/.
- > A deep dive analysis will be conducted on the Population and Housing Census 2017



financial inclusion, in close collaboration with FinMark Trust (FMT), students from Eduardo Mondlane University (UEM) and other specialists.

- > FSDMoç began preparation for the third FinScope consumer survey in Mozambique. This is a nationally representative survey aimed at identifying and examining how individual people (adults) source their income and how they manage their financial lives and provides insights into attitudes and perceptions regarding financial products and services.

TECHNICAL KNOW-HOW AND AWARENESS RAISE

- > There is technical competence in the market, but there is still a need for minor adjustments to the sector dynamics. Institutionally, companies have technical skills, and there is a need for continuous training particularly in the areas such as digital financial services, cybersecurity, humanitarian payments;
- > The Central Bank of Mozambique annually participates at the global forums of AFI (Alliance for Financial Inclusion), where there is exchange and sharing of experiences and the best practices in this sector;
- > FSDMoç has contributed to the development of technical skills in the sector through technical assistance and various other mechanisms, such as:
 - **Regulatory Sandbox:** The Consultative Group to Assist the Poor (CGAP/FCA) provided technical assistance to Banco de Moçambique (BM) for the testing and piloting phases of the FinTech solutions;
 - **Technical assistance to FinTechs at Sandbox:** Vedanvi Ltd Ltd, provided TA to build understanding of internationally accepted risk matrix and mitigation plans;
 - **Cybersecurity National Conference in Mozambique:** In November 2018, FSDMoç invited Alexander Amalorpavaraj, VISA Director of Risk Strategy and Operations for Central Europe, Middle East and Africa, as a keynote speaker who shared his experience on cybersecurity threats and payments and VISA best practices and solutions for cybersecurity.

“There is need to ensure that customers are getting effective, affordable and secure services. In this area, more work needs to be done with the digital moving forward”



GOVERNMENT SUPPORT FOR INCLUSION

There is a commitment from the Government to push financial access and usage of financial services and some of the achievements includes:

- > The Central Bank has signed a MoU with Programa de Desenvolvimento Espacial (PDE) in January 2018 with the aim to map access points for financial services;
- > BM convened a meeting with FSPs to discuss the challenges and the way forward to get institutions to collect GIS data;
- > FSDMoç and BM signed a MoU to promote financial inclusion throughout FinTech incubation (Sandbox) in January 2018 and the Sandbox was been publicly launched in 17th May 2018. The regulation of sandbox has drafted but the FinTech are already testing their solution;
- > The government has also created adequate telecommunication infrastructure to support financial inclusion;



DEVELOPING PARTNERS' SUPPORT TO BUILD THE FINANCIAL INCLUSION ECOSYSTEM

- > On financial inclusion space, DFID and Sweden (thorough FSDMoç) and the World Bank have been major development partners. The Central Bank has received support from the World Bank as part of its strategy for financial inclusion;
- > FSDMoç has provided technical assistance for the implementation of the Sandbox. It has also supported the elaboration of the National Strategy on broadband and cybersecurity;
- > FSDMoç contributed to the cancel, there is a repetition revision of the Private Equity Regulatory Framework;
- > FSDMoç contributed to the Digital Ecosystem study Digital Ecosystem Study to support the discussion on how to build a better digital ecosystem;



INNOVATION

- > Regulators have shown great interest in promoting Digital Financial Services. They have been promoting awareness raising activities, creation of discussion forums, recreational events, workshops and elaboration of legal instruments, in collaboration with FSDMoç, World Bank and other development partners. Some examples include: The Global Money Week, Financial Inclusion week, Savings day;
- > The Central Bank offers incentives for those who use cashless alternatives, with the introduction of withdrawal penalties;
- > ISSM has a MoU with FSDMoç, which aims to leverage the level of financial inclusion in the country;
- > FSDMoç is piloting innovative solutions to improve access of the underserved segments hackaton, MozTech and Seedstar.



04/04/2018 . This photo was taken in Nkobe one of the Maputo suburbs at Cacilda Alberto's house
Client's Name: Cacilda Alberto Baciquete



18/01/2019 Nkobe . This photo was taken in Nkobe one of the Maputo suburbs at Jordina's shop
Registration Date: Client's Name: Jordina Lidia Langa

3.3.2

WHAT ELSE NEEDS TO BE DONE TO GET INCLUSION RIGHT?

During the FIW 2018, FSDMoç promoted financial sector stakeholder's visibility and help to amplify what was been done but in the context of Mozambique. This was also a high moment that all financial sector stakeholder were invited to participate and show case for the financial inclusion agenda.

The FIW 2018 theme was **"Getting Inclusion Right"** and partner organizations around the globe to hold conversations focused on what the industry must do to ensure that access to financial services brings real value to customers' lives. Getting Inclusion Right means creating products and implementing policy that bridge the gap between access and financial health.

What do we need to get right to ensure that gains in financial services access lead to true improvements in the lives of the under-served? What are the great upcoming risks that we need to address now to ensure that customers are adequately protected? It is under these and other questions that Accion has selected experts from VISA, GIMO and Bankable Frontiers Institute and financial columnists to produce essays on the following FIW 2018 sub-themes: (i) Getting Insurance right; (ii) Getting digital credit right; (iii) Why Financial Inclusion matters; (iv) Financial Inclusion

from a customer perspective; (v) Getting infrastructure right; (vi) Getting payments right; (vii) Getting regulation right; (viii) Getting the role of investors; (ix) Getting data privacy right/data Security; (x) Consumer protection.

Various activities took place worldwide and this particular year coincide with CFI's 10th Anniversary and FSDMoç also replicated some of the activities in country in most visible way, engaging professionals on various areas to write essays and the proposed themes for Mozambique are described below:

HOW TO GET INSURANCE RIGHT:

Mozambique is located in a high-risk zone (South West Indian Ocean - SWIO) and is part of top 3 countries in Africa with the highest levels of vulnerabilities to natural risks such as Cyclones, Flooding and Drought. Therefore, there are challenges and opportunities for insurance. To ensure a success of getting inclusion right through microinsurance the following six initiatives are key:

1. Exploring new 'technology' to overcome challenges of access and to enable effective delivery;
2. Improving 'diversification' of services in order to provide a broader range of relevant products;
3. Growing 'commercialization' of services for this target population;
4. Increasing number of entities looking at financial inclusion;
5. Enabling regulatory environment;
6. Consumer awareness.

HOW TO GET DIGITAL PAYMENTS RIGHT:

digital payments are the pillar to improve financial inclusion, specially in remote areas/rurals where the establishment of a traditional banking system represent a challenge. At the global level investment in Fintechs has grown significantly.

There is a huge space for bancarization in Mozambique, translated into opportunity to attract investment by leveraging FinTech.

The country needs to be attractive to Investment in this space and the following areas need to be adopted:

1. Regulation in place;
2. Financial capacity and rentability;
3. Open ecosystem;
4. Adoption of a digital economy.

HOW TO GET INFRASTRUCTURE RIGHT:

Communications is key for financial Inclusion and the following regulation is needed:

1. Regulation of Sharing of Passive Infrastructures for Telecommunications and Other Network Resources exist already (Decree 62/2010), but it requires, negotiations between telecommunications operators (interoperability of infrastructure) ;
2. Technology to massive internet uses: The Communication Regulatory Authority has investigated technologies for the massive internet uses in rural areas with reduced costs (eg: the digital square initiatives);
3. More space to internet access and security for FSPs.

HOW TO GET CONSUMER PROTECTION RIGHT:

To develop a sustainable financial services ecosystem the following needs to happen:

1. Products and services need to respond to the end consumer needs;
2. Regulation in place to protect consumers;
3. Financial education program that builds knowledge and capabilities of consumer.



14/02/2019 . This photo was taken in Nkobe one of the Maputo suburbs at Olga's house
Client's Name: Constantino Pereira Costa





4

ACHIEVEMENTS
AND PROGRESS



4.1

INNOVATION TO REACH MORE PEOPLE

FSDMoç has reached a number of significant achievements over the FY 2018/2019 and the programme has analyzed its results to understand the changes in the market and what lessons can be drawn to inform on further focus areas moving ahead.

A SUCCESS STORY:

FSDMoç is implementing two off-grid solar energy interventions using technology to allow low-income household families to access clean energy. These solutions are taking off and over 13,000 beneficiaries that were previously living without electricity. Today they have their life-transformed as a result of PAYGO solar companies which are gaining popularity by providing light and other forms of services that can make the bridge to a key pathway to financial inclusion.

The following story comes from one of the beneficiaries who gained access to solar energy for the first time by using informal means of credit to finance an asset (solar kit): Mr. Armando Mbire is a owns a small shop in the Vanduzi district of Manica Province, he shared the following testimony:

"Before using the solar kit, I was using lanterns and candles, and spending a lot of money buying batteries and petroleum. Now my children can do their homework in the evening. I don't have to sleep once the sun has gone... also my wife can prepare the meals in the evening and we can all have a later dinner..."

"...The electricity transformed my business because now I can keep the shop opened until later in the evening... and I even started a new business which includes charging people's phones and receive extra income which is turning to be even more profitable than the shop..."

Now the Solar company is using him as a model to engage new customers and whenever there is a problem with the system he can assist the community and is getting extra incentives from the company by representing them.



2/06/2018 . photo taken by Belmiro Nhamithambo. Location: this photo was taken in Community of Dongo, district of Vanduzi. Manica province Name: Armando Mbire



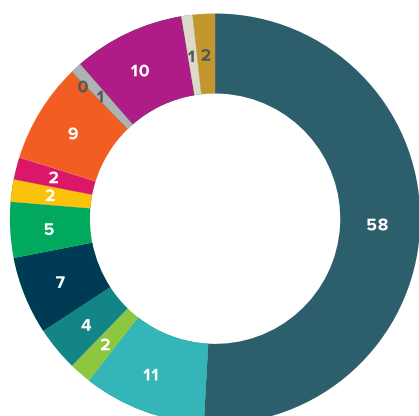
AGENT BANKING STORY

From the voice of aJP Letshego agent in Inhambane province: *"...Technology has been an enabling factor, today customers have shifted their mindset regarding how they see cell phones as a viable and trustworthy banking platform"... being an agent "I can until late because there are more transactions by the end of the day since some employees are getting out from work and that is the convenient timing and the advantage is the proximity provided by the agent...."*

CAPACITY BUILDING - DFI

FSDMoç is contributing to build the knowledge and capacity of the industry on DFS services. To date 34 out of 71 professionals (with 37% of women) from banks, insurance and academia were sponsored by FSDMoç. And the rest were sponsored by their own institutions. This is a unique opportunity to take a training course (given the variety of courses shown in figure 9) and resulted in the creation and growth of a DFS community of practice the creation and growth of a DFS community of practice.

FIGURE 9: DFS COURSES BY COHORTS



- Certificate in Digital Money
- Operationlizing Mobile Money
- Indian Markets
- China
- Level One
- BBTTF (Bitcoin)
- Consumer Protection
- Remittances
- Digital Identity
- Digital Humanitarian
- Anti Money Laundering
- Leading Digital Money Markets
- Agri
- Gender

4.2

OTHER ACTIVITIES TOWARD DIGITAL FINANCE HIGHWAY

INTEROPERABILITY

There has been a need to understand Interoperability from different stakeholders' perspective including banks, MMOs, agents, payment providers. To date, FSDMoç can claim contribution on the demystification on understanding what interoperability actually is. Also, on creating a platform for the industry to engage in dialogue and provision of TA on the whole process which culminated with the design of the "Bank to Wallet Agreement" which has already been submitted to the regulator for appreciation and consideration. As a result, we are already observing bi-lateral agreements between mobile money operators and banks and now the conversation around interoperability among MMOs is under way.

MICROINSURANCE ROADMAP

During this FY, FSDMoç has contributed to the development of a roadmap which outlines a stronger foundation of microinsurance in Mozambique and guides all stakeholders towards a mature and sustainable microinsurance sector, if taken forward properly. ISSM is now in a position to have a dialogue with stakeholders such as the industry and the regulator and detail actions for specific stakeholders. FSDMoç will continue to monitor how far the implementation of the roadmap is taken and monitor for new products which enter the microinsurance market.

This can meet the demands of underserved populations of the market by improving relationships with customers, inform businesses of cost-effective strategies by using automation, and using digital customer profiles as a robust alternative to KYC requirements. This is an opportunity for financial institutions to test asset finance using customer profiles collected from credit scoring algorithm and system.

FACILITATIVE ROLE TO IMPROVE UNDERSTANDING OF NEW DIGITAL AREAS

> **During the National Cybersecurity Conference (22 & 23 November 2018):** FSDMoç invited as a keynote speaker Alexander Amalorpavaraj, VISA Director of Risk Strategy and Operations for Central Europe, Middle East and Africa, to share his experience on cybersecurity threats and payments and VISA best practices and solutions for cybersecurity;

> **Training on how to use GIS platform and concepts:**

- FSDMoç facilitated the training on the usage of GIS for 40 Professionals from different financial sector institutions.
- FSDMoç invited FinMark Trust to share GIS use cases from other African countries (which includes location of agents, financial access points, potential markets etc.) for more details follow the link to the video: <https://we.tl/t-RiANapWXCT> . It is expected it is expected that this tool will report the maps illustrating the position of access points for financial services;

> **Credit scoring data generated from PAYGO system:** The potential of a PAYGO system is that it can aggregate large amounts of data which can be analyzed to create customer profiles including credit scores. There are tremendous benefits of these customer profiles on development of tailored products and services namely: (i) asset finance, (ii) digital lending, (iii) agriculture input finance.

4.3

FSDMoç BY NUMBERS

During this FY 2018/2019 FSDMoç has been implementing 21 interventions and the Investment Committee approved 16 interventions. Currently the projects are in different implementation stages. FSDMoç's financial inclusion outcomes have four dimensions:

- > Outcome 1: Is related to individuals (adults) accessing financial services by the first time and;
- > Outcome 2: It is associated with deepening financial services to individuals (adults) already included to start experiencing additional services;
- > Outcome 3: It is related to SME accessing financial services by the first time;
- > Outcome 4: It is associated with SMEs deepening financial services by experiencing additional services;

To make ourselves accountable, along with our partners we do track progress in uptake and usage of financial services using the four outcome indicators, but we do also capture some intermediate outcomes on financial behavior of people when making their finance decisions.

Overall, FSDMoç contributed to financial inclusion with the range of financial services accessed by adults. Through Outcome 1 and Outcome 2, we have reached 1,567,809 individuals of which 40% are women. Looking at access by delivery channels mobile money is contributing with 73% and agent banking with 20%. This result indicates once again that women have been left behind when it comes to access formal financial services.

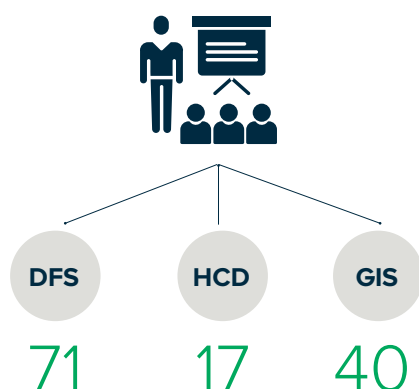
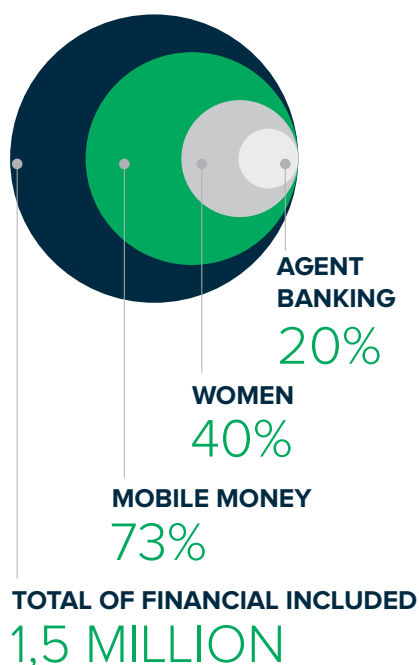
VARIOUS INITIATIVES HAVE CONTRIBUTED TO OUTCOME 3 AND 4:

- > PME Academy implemented by Banco Único in partnership with FSDMoç. Currently there is an evaluation of the PME Academy which is still ongoing and will be able to inform the scope of the next steps;
- > To improve the management skills of SMEs to make them bankable, a dedicated business consultant was engaged;
- > A number of initiatives at the meso level such as the SME gap analysis which identified a pool of SME's that would qualify to be listed on the Mozambican Stock Exchange.
- > The FinTech challenge that ended up generating a pull of start-ups which few are part of the Sandbox;
- > Technical Assistance was provided to Tongasse Agropecuária, SA, with aim to prove a business case for supply chain finance to be presented to FSP's that would be interested to work with smallholder poultry farmers.

Up-to-date, a total of 1,145 SMEs have accessed financial services directly or benefitted from any type of assistance that lead to an uptake of product (e.g.: opening new account, taking a loan, skills developed etc.).

Additionally, FSDMoç has interventions which don't contribute directly to the outcomes mentioned above, but they have great impact on the behavioral changes and contributing to the construction of this digital highway. Some of the results include trainings in different areas:

- > 71 professionals of financial institutions were trained in DFS;
- > 17 representatives of FSPs trained on HCD approach and
- > 40 professionals trained on GIS.





5

OPPORTUNITIES
AND MOVING
FORWARD



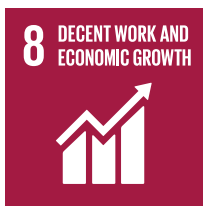
5.1

SUSTAINABLE DEVELOPMENT GOALS LOOKING AHEAD

FINANCIAL INCLUSION MEANS THAT INDIVIDUALS AND BUSINESSES HAVE ACCESS TO USEFUL AND AFFORDABLE FINANCIAL PRODUCTS AND SERVICES THAT MEET THEIR NEEDS – TRANSACTIONS, PAYMENTS, SAVINGS, CREDIT AND INSURANCE – DELIVERED IN A RESPONSIBLE AND SUSTAINABLE WAY.

SDGs

INCLUSIVE GROWTH



{ UNDERSERVED GROUPS }

BASIC SERVICES



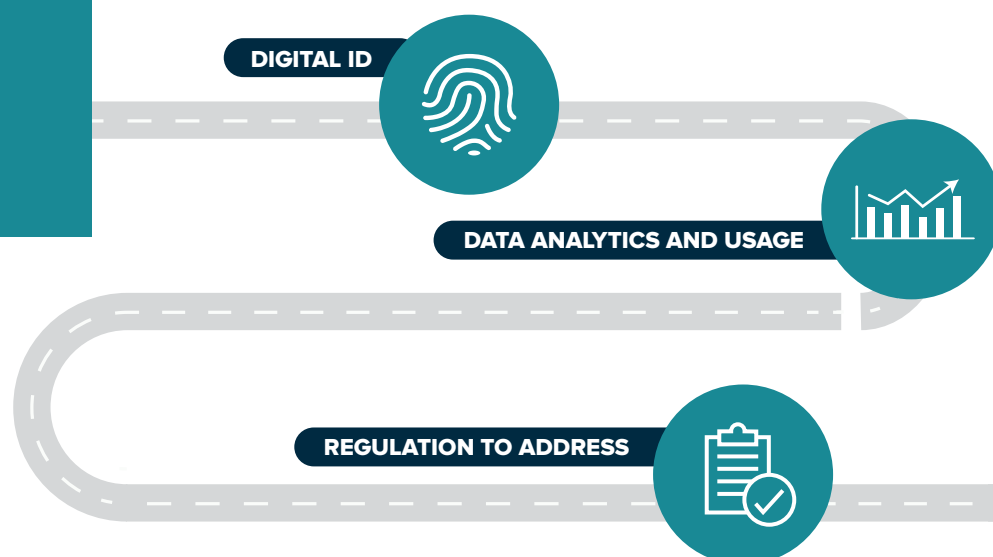
SUSTAINABLE FUTURE



Access to a transaction account is a first step toward broader financial inclusion since it allows people to store, send and receive money. Therefore, to ensure better access and provision of basic services, moving forward there is a need for more interaction within various sectors and digital financial inclusion and digital is key to promote sustainable development goals (SDGs). FSDMoç will continue to promote financial inclusion using digital tools and innovation to drive progressive change with impact on poverty reduction and prosperity. In upcoming years we will pursue SDGs related to inclusive growth (SDGs 8, 9, 10), basic services (SDGs 3, 4, 6, 7, 11) and sustainable future (SDGs 13, 16)

5.2

AREAS TO FOCUS LOOKING AHEAD

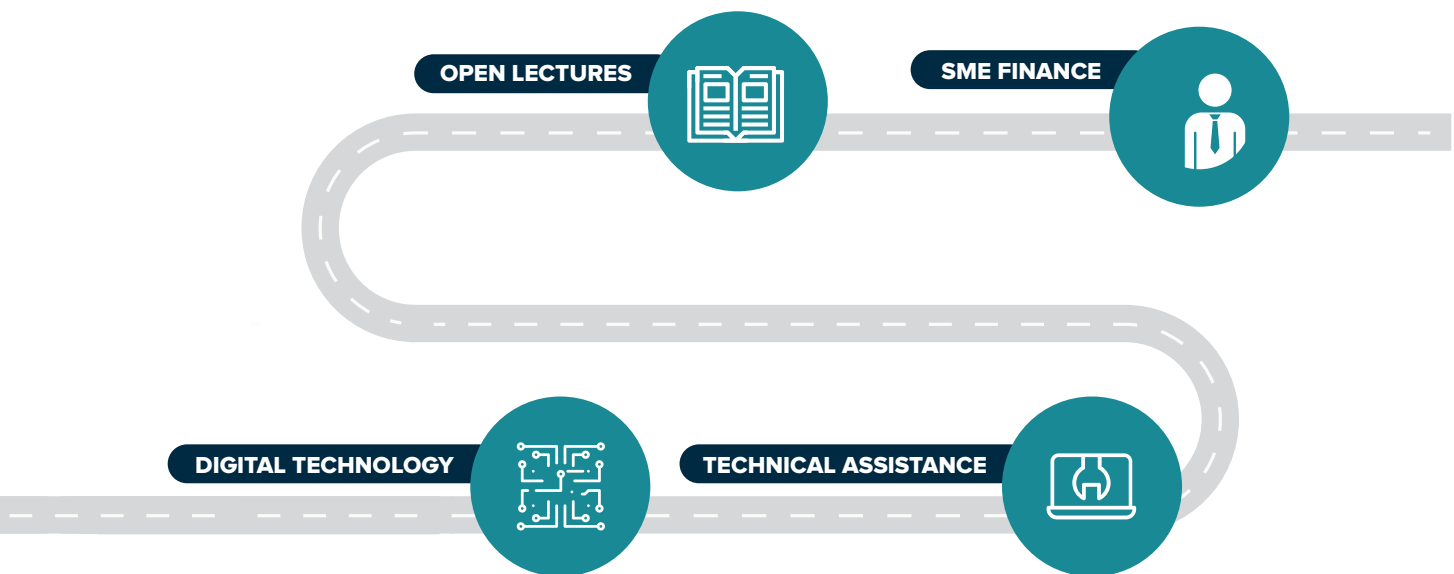
**1. DIGITAL ID:**

The digital ID is not just for civic and social empowerment, but also makes possible real and inclusive economic gains—a less well understood aspect of the technology. A good digital ID requires the following four attributes:

- (i) Verified and authenticated to a high degree of assurance: High-assurance digital ID meets both government and private-sector institutions' standards for initial registration and subsequent acceptance for a multitude of important civic and economic uses, such as gaining access to education, opening a bank account, and establishing credentials for a job. High-assurance authentication maintains these same standards each time the digital ID is authenticated. This attribute does not rely on any particular underlying technology. A range of credentials could be used to achieve unique high-assurance authentication and verification, including biometrics, passwords, QR codes, and smart devices with identity information embedded in them;
- (ii) Unique: With a unique digital ID, an individual has only one identity within a system, and every system identity corresponds to only one individual. This is not characteristic of most social media identities today, for example;
- (iii) Established with individual consent: Consent means that individuals knowingly register for and use the digital ID with knowledge of what personal data will be captured and how they will be used;
- (iv) Protects user privacy and ensures control over personal data: Built-in safeguards to ensure privacy and security while also giving users access to their personal data, decision rights over who has access to that data, with transparency into who has accessed it.

2. DATA ANALYTICS AND USAGE:

Data can drive decision, identify critical information sources and build customer profile to better respond to their needs.



3. REGULATION TO ADDRESS

Digital has allowed a rapid technological progress and growth, which has generated tremendous benefits for consumers. Therefore, policymakers all over the world are now recognising challenges such as data protection laws, open APIs, cybersecurity, dispute, and working to implement reforms that will protect competition and consumers without impeding social and economic progress. Digital ID programs such as the Morenet initiative can be a powerful tool for connecting thousands of students, professors which are part of the academia with public services and nudging digital adoption.

4. DIGITAL TECHNOLOGY:

It is important to continue the engagement with market players to better understand how they can support access to services and job creation for the youth;

5. TECHNICAL ASSISTANCE:

FSDMoç will continue contributing to building the capacity of FSPs, Regulators and the public in general in HCD to ensure that products and services are tailored to the needs of end-users and are adopted;

6. OPENING LECTURES:

These are very important vehicles to build the capacity of market players: we need to stay on top of digital trends because new digital tools and approaches are entering in the markets every day, we need to have our players up-to-date by offering opportunity to participate at these opening lectures;

7. SME FINANCE:

Recognising the role that this segment is playing, digital tools and innovation can accelerate and innovation can accelerate the speed at which services are offered by developing alternative SME finance (eg: Capital Market ecosystem; Blended Finance, Green Finance Municipality, Bonds etc.)



6

**PROJECT
MARKET INSIGHTS
AND PORTFOLIO**

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6.1

MARKET INSIGHTS

STUDY/RESEARCH/PROJECT NAME	BENEFICIARIES	DESCRIPTION
Bank and non-bank agent assessment	Financial Sector Stakeholders	Objectives: Better understand the root cause of a relatively low adoption of the agent network in Mozambique.
M-Pesa Evaluation	Financial Sector Stakeholders	Objectives: Assess the progress of M-Pesa roll-out and mobile money in Moçambique more broadly, in order to understand the overall outcomes and impacts of the FSDMoç supported programme.
Towards a Digital Highway to Build More access - More Interaction -Better Ecosystem – 2017/18 FSDMoç Annual Publication	Financial Sector Stakeholders	Objectives: Showcase FSDMoç work and accomplishments in Mozambique financial sector on the fiscal year 2017/18.
SME Finance and Market Development – GAP Analysis and Investment Attractiveness Report	Financial Sector Stakeholders	Objectives: Improve the understanding of capital markets by SMEs, entrepreneurs and individual investors, and other intermediaries (stock exchange, investment advisory, FSPs) on the role and importance of capital markets both as a source of capital and as an investment instrument.
Roadmap for Microinsurance Development in Mozambique	Financial Sector Stakeholders	Objectives: Development of Microinsurance through stakeholder engagement on a roadmap for Micro-insurance development that could include establishing of a micro-insurance unit within ISSM
SolarWorks! Business Case	SolarWorks!	Objectives: Identify alternative business case that SolarWorks could pursue.
Digital Financial Services Ecosystem	Financial Sector Stakeholders	Objectives: understand the ecosystem of digital financial services in Mozambique
Supply Chain Finance Model for Increased Liquidity and Working Capital	Tongasse	Objectives: Present a business case and identify a (FSP) to work with smallholder poultry farmers.
Opportunities to establish blended finance instrument in Mozambique	Financial Sector Stakeholders	Objectives: Conduct an assessment into the Mozambican market, to identify if there is a market and interested parties to fund the establishment of a blended finance instrument in country.
Bank of Mozambique Financial Education Programme	Bank of Mozambique	Objectives: Assess BM financial education strategy and design of monitoring and evaluation system to support central bank.

6.2

PORTFOLIO SUMMARY

AREAS OF FOCUS	DESCRIPTION AND INTERVENTION OBJECTIVES
Insurance	
Microinsurance	Development and rollout Microinsurance product aimed at serving mainly the informal workers in urban and peri-urban areas. while addressing uptake constraints of informal workers through financial education activities.
Microinsurance roadmap	Expand and promotion microinsurance business case in the country for low-income segments (eg: informal sector)
Britam – Trade Credit Insurance	FSDMOç intends to partner with Britam, with the objective to facilitate a countrywide dissemination and capacity building on Trade Credit Insurance in relevant economic activity centers beyond Maputo, namely in Beira, Nampula, Tete and Pemba.
Agri Finance	
Comprehensive Agency Banking for Rural Sites	Increase access points and bring formal banking services closer for communities in the rural and remote areas.
Agency Banking	Establishment of an agent network which will be at the disposal of other banks and microbanks, to extend their services to the populations under the jurisdiction of those agents.
Rural Finance	To providing banking services and access to finance to rural farmers by building key capabilities to innovate solutions for smallholder farmers and their households, create financial education strategies that result in service adoption and usage by a range of rural market segments
JFS	Conduct a research to demonstrate the business case of financing rural farmers in Niassa province.
Housing Finance	
Housing chronics	
Innovation & expansion of financial services	
Mobile Money Uptake	Objectives: Accelerate the mobile money uptake countrywide and establish a viable new delivery channel, accessible to a range of financial service providers.
Expanding Energy PAYGO and Testing Credit Scoring Model	Objectives: Promote the access to energy through PAYGO services, while contributing to reduce asymmetries and unavailability of data on credit performance of people in the low-income groups.
Achieving Lowest Cost Energy and Financial Access in Mozambique	Objectives: Finance quality assured solar systems to off grid customers provided through a pay-as-you-go (PAYGO) model.
Use of Technology to Streamline Operations	Objectives: Support SOCREMO's client acquisition to double its client outreach by implementing an innovative digital strategy to upgrade credit processes.
Conceptualization, Development and Piloting of DFS platform for Microbanco Confiança	Develop and launch DFS to expand its product offering by introducing market-responsive savings and transactional banking services designed to enhance the customer experience and improve financial inclusion.
E-ticketing Transport Assessment in Mozambique	Integration of Financial Services to the Public Transport Cashless Payment System

Saving Groups	
Sustainable Formation of Savings Groups (SFSG)	<p>Test the Savings for Change approach that focus on cost reductions and technology-based training and supporting systems</p> <p>Test and implement innovative approaches to savings groups formation, by re-engineering previous methodologies through the use of e-Recording and training videos.</p>
Usage of data	
New Users, New Insights, Better Data	<p>Objectives:</p> <p>Phase 1 - provide phones to increase the number of people signing up for and using Mobile Money (MM) including collecting information on customer behaviour.</p> <p>Phase 2 - increase the number of people signing up for and using Mobile Money (MM) by leveraging when customers by a new SIM and encourage people to sign up for M-Pesa.</p> <p>In partnership with Vodafone M-Pesa, FSDMoç is currently implementing a Phase 2 of the Mobile for All (M4A) project aimed at increasing the conversion of Vodafone customers into M-PESA</p>
GIS Data for Financial Inclusion	Create capacity to use GIS platform
SME Alternative Finance	
SME Finance and Business Development	Build on an innovative approach to SME Finance involving targeted campaigns to improve bankability of SMEs, as well as applying a customer centric design for new product approaches to this market segment.
Provision of Financial Services to Smallholders Farmers in Niassa Province	Demonstrate the case of financing smallholders within the cotton value chain, including SMEs and households in the vicinities through HCD approach and present the business case for FSPs for provision of financial services.
Supply Chain Finance	Developing a Supply Chain Finance Model for increased Liquidity and Working Capital for Tongasse's poultry value chain
Capital Markets Development	Institutional Assessment and Support to Mozambique Stock Exchange Develop an institutional development program addressing BVM's challenges.
Fintech Innovation Fund	Contribute on the construction of a fintech's ecosystem
BiG Bank - SME Finance and Market Development Study	Prepare SMEs to be listed at the Mozambican Stock Exchange.
SME Academy	The project with Banco Único was aimed at designing and piloting academy sessions and business development services (BDS) to SMEs in Maputo, Matola and Machava
Ministry of Economy and Finance - Capital Markets (FSDA)	FSDMoç is providing assistance to FSDA in identifying and establishing an agreement with a suitable Mozambican institution, that will lead the development of a 10-year masterplan for capital market development.
Macro Level support	
Sandbox FinTechs ecosystem	FSDMoç promoted the establishment of FinTechs in Mozambique. The Sandbox project has so far contributed to the changes in the financial sector ecosystem through incentivizing innovation and use of technology in the development of products and services. Many lessons were learned regarding the implementation of such initiative, which have contributed to visible changes in the engagement approach adopted by the regulator, the confidence of innovators to present their business models and the willingness of the FinTechs to create their association.



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INVESTMENT COMMITTEE CHAIR'S NOTE

In my five years journey working closely with Financial Sector Deepening Moçambique (FSDMoç), I have seen the programme making great progress in delivering innovative solutions supporting financial inclusion. Working with other donors, partners and stakeholders, FSDMoç actively pursues its vision to facilitate new thinking to improve the financial lives of all individuals and businesses in Moçambique. I would like to use this opportunity to recognize and congratulate both the programme stakeholders and FSDMoç team for their tireless efforts towards attaining UK and Sweden objectives.

WORKING TOGETHER TO BUILD FINANCIAL INCLUSION GOALS

Completing the 5-year implementation, we can see encouraging results in terms of numbers of people financially included. The Financial Inclusion Report 2017 highlights the contribution of different initiatives led by Private Sector (banks, mobile money, and insurance), Government initiatives, and Community-based Organizations (Saving Groups, Xitiques, etc...). Despite these investments, the transformation of financial sector is still very slow. There are still blockages to be addressed, and I believed FSDMoç is the right instrument and appropriate partner to continue support the deepening and broadening of **FINANCIAL SECTOR** in the country

Since the beginning of the programme, FSDMoç addressed market information asymmetry by providing information to the industry to help build market knowledge, and to improve implementation capacity of key financial inclusion stakeholders. There are no doubts that the FSDMoç has contributed to addressed market failures that enabled technology and digital financial services to provide access to financial services in remote and rural areas for the excluded segments.

Today, **TECHNOLOGY** is fundamentally changing the structure of financial services and the economy. Using digital and technology allows the expansion of formal Banking services, Micro Finance Institution products and services, and ensures that these delivery channels meet consumer needs through development of new and tailored products and services. I am delighted that with all partnerships both with public and private sectors, it was possible to implement our vision to continue advance financial inclusion in Mozambique.

BEING THE CHAIR OF INVESTMENT COMMITTEE

Together with other members of the Investment Committee (IC), I am confident that we provided support to FSDMoç in setting the strategic direction, ensured all interventions approved are appropriate balanced considering market system change approach, and ensured that delivers poverty and financial inclusion objectives. I would like to express my gratitude to Mark Napier, Marielle Zeidler, and Shahnila Azher. At programme management level, I would like to appreciate the devoted time and dedication of my colleague Márcia Paunde to ensure this programme is a success. Thank you all for your efforts!

Having pushed this programme to the harbor, I am certain that the future is promising, and with upcoming foundation as established and permanent vehicle will help to accelerate the expansion and levels of inclusion and contribute to the country's financial inclusion goals. My aim is that more individual and households will be able to use affordable and appropriate financial services and I would like to see more businesses derive value from regular use of financial services.

OUR PARTNERS





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FSDMo. 
INVESTINDO EM INCLUSÃO FINANCEIRA

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