

Responsible Finance Market Overview: Mozambique



Microfinance Sector in Mozambique

The microfinance sector in Mozambique is regulated by the **Bank of Mozambique** (BoM) and the Department of Banking Supervision oversees the sector. The **National Directorate for Promotion of Rural Development** (DNPDR), under the Ministry of State Administration, is also a key regulatory player. The DNPDR was responsible for drafting the first legislation on microfinance, adopted by the Central Bank in 2004. Decree 57/2004 categorizes microfinance operators according to reporting and supervision requirements. Microbanks and credit cooperatives are subject to prudential supervision and must be licensed by the BoM. Microcredit providers, accumulating savings and credit associations (ASCAs) and deposit-taking intermediaries are subject to monitoring and need only to register with the BoM. In addition, several commercial banks provide microfinance, three of which are the largest providers in the market.

The microfinance sector in Mozambique is relatively small and undeveloped. Out of 32 African countries on **The Mix Market**, Mozambique ranks 20th in terms of active borrowers and 18th in terms of Gross Loan Portfolio. The sector emerged in the late 1980s primarily out of donor-driven initiatives. Along with donors and social investors, the government has heavily funded the sector, most significantly through the Support Program for Rural Finance managed by the Fundo de Apoio à Recuperação da Economia (FARE). Most Mozambican MFIs remain foreign-owned and very few are financially self-sufficient. The sector is primarily donor dependent and commercial funding is limited, as commercial banks consider MFIs too risky. Moreover, poor financial performance and weak levels of growth do not make the Mozambican sector very appealing to outside investors.

MFIs are concentrated in populous Maputo province, even though an estimated 69

percent of the population lives in rural areas. High costs of operating in rural areas, combined with scarce human resources are major challenges to rural financial development, despite the heavy investments by the FARE.

Sector Issues for Responsible Finance

- › Management Information Systems are extremely weak and many MFIs do not track basic information like total active portfolio or number of clients.
- › MFIs have little capacity for financial analysis, limiting good financial management and data analysis.
- › The level of over-indebtedness is unknown. The BoM requires banks to report to the state-run credit bureau but other microcredit providers do have access to this system.
- › Through the Transparent Pricing Initiative, MFTransparency collected and published pricing data for 10 MFIs in Mozambique in 2011, revealing very high APRs and relatively low transparency.
- › There has also been an increase in entities with operations that resemble pawn shops (nominal interest rates of over 30 percent per month) indicating an urgent need for a Code of Ethics or Business Conduct for MFIs.
- › There is no standard formula for comparing product prices or any obligation to disclose fees, commissions or insurance costs associated with credit.
- › While MFIs are required to disclose product type and interest rates on a six-month basis (for smaller MFIs in branch office and on loan documentation, and, for commercial MFIs, in a daily newspaper), non compliance is commonplace due to the MFIs' limited operation capacities.

- › The BoM has a customer service department for complaints, inquiries and suggestions. This service was set up in 2009 to comply with Law no. 02/96 on financial consumer protection. In addition, the law established a 90-day period for the implementation of customer service departments in financial institutions and start of operations. There are no statistics as to whether MFIs, large or small, are complying with this law, or to what extent the complaints mechanism is used.

Mozambican Association of Microfinance Operators

Associação Moçambicana dos Operadores de Microfinanças (AMOMIF) was created in 2007 as a cooperative project between the government of Mozambique and the German government, which provided the initial funding and accompanying technical assistance. Some of AMOMIF's key achievements include the creation of a market for trainings in microfinance and a quarterly performance monitoring program.

The association has experienced numerous challenges in revenue generation and program implementation. The training market has become more competitive, which reduced the demand for AMOMIF-managed activities. While the performance monitoring program has been useful for sector observers, it has not had much impact on the sector's performance. This is primarily due to the fact that MFIs have weak capacity for financial analysis and cannot interpret the data they send to AMOMIF. In addition, there is limited awareness within the association membership of the importance of transparency, both in pricing and in consumer protection more generally. Employee turnover in the association has also impacted the implementation of program activities.

AMOMIF's Presence in the Sector

	Microfinance Sector (2011)	AMOMIF Members (2012) (only 18/32 report data)
Number of legally registered MFIs	190 licensed, of which only 70 are operating	32
Number of persons benefiting from MFI services (members, borrowers, or depositors)	71,870 *	88,369 Borrowers; 211,916 Depositors
Market penetration rate (for total population)	NA	NA

Membership Ratio

(Number of members vs. number of MFIs eligible for membership 70 in the case of Mozambique)

41%

Member Coverage

(Number of members' clients vs. number of clients in the market)

N/A

*Several MFIs saw a significant increase in borrowers from 2011 to 2012. Source for sector data from the 50 MFIs cited in MFTransparency country survey December 2011. Source for AMOMIF: AMOMIF data, 12/2012

AMOMIF's Responsible Finance Agenda

Objective: Strengthen the association's ability to promote better consumer protection practices and contribute to transparency in the sector through improved industry-wide performance monitoring and benchmarking reporting.

Steps toward more transparent markets

- ✓ Collects quarterly financial performance data from members and non-members (18 MFIs reporting)
- ✓ Processes information to share with the MIX Market
- ✓ Publishes quarterly data on AMOMIF's website (most recent data 12/2012)
- ✓ Cooperated with MFTransparency to conduct one round of a pricing initiative in 2011 of 10 MFIs

Priority Actions

- » Due to the current leadership vacuum, many activities have been temporarily suspended until the Board can reorganize and the association can resume operations