# FinScope Mozambique 2009

## Survey Report

## August, 2009

REPÚBLICA DE MOÇAMBIQUE

MINISTÉRIO DAS FINANÇAS

Projecto de Assistência Técnica ao Sector Financeiro

(FSTAP)

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# FOREWORD

The Government of Mozambique (GoM) recognizes that the scope and efficiency of the financial sector play an important role in facilitating economic and private sector growth and has therefore, in recent years, introduced laws, policies and projects that aim to create an enabling environment for the development of financial services. To achieve the development goals of its poverty reduction strategy (PARPA II), the GoM has worked closely with its development partners.

Proof of the commitment of GoM is the establishment of the multilateral donor-funded Financial Sector Technical Assistance Project (FSTAP). FSTAP aims at the "Improved soundness of the Mozambican banking sector and improved public debt management". FSTAP[1] is implemented by the Ministry of Finance involving other Ministries and government entities. A key constraint in pursuit of the FSTAP objectives was a lack of credible information about financial access in Mozambique.

Against this background, FSTAP initiated the implementation of the FinScope Mozambique 2009 survey which was hosted by the Ministry of Finance and funded by the government of the Federal Republic of Germany through the Kreditanstalt fuer Wiederaufbau (KfW).

The FinScope survey is a research tool which was developed by FinMark Trust (a South African based not-for-profit organisation). It is a nationally representative study of individuals' perceptions on financial services and issues which creates insight to how people source their income and manage their financial lives.

The objective with implementing a FinScope survey in Mozambique was to:

(i) measure the current levels of access to financial services and describe the **landscape of access**; as well as to

(ii) support commercial innovation – access to finance can only improve if financial services providers deliver products and services to more people. FinScope has a proven track record in stimulating new product innovation for lower income consumers.

The results of the FinScope Mozambique 2009 survey provide for the first time the figures quantifying the extreme dichotomies prevailing between the modernizing urban areas and the poverty and isolation of the vast majority of Mozambicans living in rural areas. The findings show that Mozambique still ranks amongst the lowest in terms of financial access compared to other African countries covered by FinScope surveys. Furthermore, these results justify the significant government and donor intervention to stimulate greater rural outreach of financial service provision,

This survey clearly demonstrates that the physical proximity of services will not necessarily resolve the issue of access. Although increasing the network of bank branches and provide accessible financial services in rural areas will raise the number of banked individuals, there is a need for policy makers and service providers to better understand the impact of other factors such as a lack of financial literacy and psychological barriers

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1 Implemented through support by *inter alia* the African Development Fund, the German Development Cooperation, the UK Department for International Development (DFID), and the Swedish International Development Cooperation Agency (SIDA) and the World Bank.

such as a lack of trust, that continue to constrain access. The significant role played by the informal sector in pushing out the boundaries of access to financial services in Mozambique highlights the fact that the need for- and utilization of informal financial products should not be underestimated or ignored in the process of development of the financial sector in Mozambique.

It is my hope that the FinScope Mozambique 2009 survey findings will provide the basis for dialogue and debate amongst policy-makers, government officials, representatives from the banking sector, micro-finance institutions, other private and public stakeholders as well as the donor community to promote and support policy and institutional development towards the objective of increasing access to financial services in Mozambique.

The results of this study would not have been possible without technical and financial assistance provided from the FinMark Trust and the government of the Federal Republic of Germany respectively. On behalf of the Government of Mozambique, I would like to express my sincere gratitude for their support. I would also like to thank all national institutions and individuals, which directly or indirectly participated in this study, in particular the AustralCOWI, the research house who conducted the survey and presented the findings, as well as INE who designed the sample, supervised the implementation of the survey and validated the results. Additional appreciation goes to all stakeholder representatives, far too many to mention, who contributed to the survey and questionnaire design.

Finally, no study of this nature and scope can reasonably aspire to being the "last word". While we are also well aware of the fact that work of this scope and nature, when carried out the first time has its limitations. We, as the Government of Mozambique, would therefore appreciate any comments or suggestions of aspects that should be taken into account with the implementation of future FinScope surveys.

**Minister of Finance**

**Manuel Chang**

# ACRONYMS

| | |
|---|---|
| AFDB | African Development Bank |
| AMOMIF | Association of Mozambican Microfinance Operators |
| ASCAS | Accumulating savings and credit associations |
| ATM | Automatic teller machines |
| BoM | Bank of Mozambique |
| BI | Identity card |
| CTA | Confederation of the Economic Associations |
| DFID | Department for International Development |
| DIRE | Identity Document for Foreign Residents |
| DSTV | Digital Satellite Television |
| EA | Enumeration area |
| FAS | Financial Access Strand |
| FMT | FinMark Trust |
| FSTAP | Financial Services Technical Assistance Project |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| ICA | Investment Climate Assessment |
| IFAD | International Fund for Agricultural Development |
| IMF | International Monetary Fund |
| INE | National Statistics Institute |
| INSS | National Institute for Social Security |
| IOU | I owe you |
| IPRMF | International Partners for Rural and Micro Finance |
| KfW | Kreditanstalt fuer Wiederaufbau |
| LSM | Living Standard Measure |
| MDG | Millennium Development Goals |
| MFI | Micro Finance Institution |
| MFW4A | Making Finance Work for Africa |
| MSMEs | Micro, small and medium enterprises |
| MT | Metical |
| NGO | Non-governmental organization |
| NUIT | Tax Identity Number |
| OIIL | Budget for Local Investment Initiatives |
| PARPA | Plan for the Reduction of Absolute Poverty |
| PCA | Principal Component Analysis |
| PSU | Primary sampling unit |
| RFSP | Rural Finance Support Programme |
| SACCO | Savings and Credit Cooperatives |
| SMS | Short Text Message |
| TV | Television |
| UNDP | United Nations Development Programme |
| USD | United States dollar |

# EXECUTIVE SUMMARY

FinScope Mozambique 2009 is the first national survey of its kind, in which a representational cross-section of all adult Mozambicans have been interviewed comprehensively about their financial behaviour, familiarity with financial terminology and their use of financial services. As economies grow, so does the sophistication of financial services offered. Mozambique is no exception where a significant percentage of urban residents now use debit and credit cards, ATMs, overdraft facilities and internet banking. Though banking technology is essentially similar to developed countries, a very large majority of Mozambicans are excluded not only from banking services but from alternative informal services as well. A better understanding of financial access patterns is a critical first step towards overcoming the constraints that prevent people from benefiting from facilitated financial transactions, safekeeping of funds, saving securely, borrowing when financially restrained and avoiding the consequences of mishap through insurance.

The findings of this survey will be of obvious interest to the financial service providers but also to the government and donors as so many issues relating to development and well-being depend on the population's ability to access basic financial services.

Mozambique remains one of the poorest countries in the world, though enjoying some of the highest rates of prolonged growth in sub-Saharan Africa. However, the impact of development and growth remain highly skewed and the disparity between rural and urban populations were clearly reflected in the survey results which showed an significant gap between urban and rural populations in terms of housing quality and access to basic services and infrastructure. The consequence of such distortion was clearly evidenced in education levels (6.8% of rural adults had some secondary education vs. 31.3% of urban adults). Not surprisingly, levels of financial awareness were very low in rural areas (more than half did not know what a bank was). Limited rural access to technology and communications was underscored by the fact that only one in ten rural adults owns a cellphone vs. four out of ten urban adults.

Very low rates of financial access of the rural adult population (only 4.2% had access to formal financial services vs. 26.6% of the urban adult population) strongly contributed to Mozambique's lowest position in terms of financial access among the 11 African countries where FinScope surveys were conducted (78% of the adult population are financially excluded). Mozambique is the second lowest in terms of formal financial access (only 12% of adults have a bank account). Extreme poverty, which is particularly prevalent in rural areas, will ensure that the lack of resources remains the principal impediment to accessing financial services for some time to come. As could be expected, a very close positive relationship was found between the proportion of the formally banked and levels of education and income.

The supply of banking services remains highly skewed towards urban areas and the southern part of the country. Three-quarters of currently banked adults are located in urban areas. Bank accounts are generally used for the purposes of safeguarding (vs. saving) money and transactions. Bank clients prefer using ATMs to counters when withdrawing money. Though their presence is still comparatively limited, commercial microfinance banks and *microbancos* are growing rapidly, accounting for 6.2% of bank clients. One of the key perceptions of those who have had exposure to banks is their trustworthiness. By contrast, those who are unbanked demonstrated attitudes that reflected high levels of mistrust of commercial banks.

Only about a fifth of the adult population "saves" (savings did not include money set aside for normal expenditures or transactions), most of whom through informal schemes or at home. Only 5.3% of the adult population save through banks. The three most important reasons for savings related to preparedness for emergencies, while a little less than a third of those who saved planned to invest in an income generating activity. As could be expected, the proportion of savers increases with the level of income. With prevalent poverty, limited personal liquidity will continue to be a major constraint for expanding savings accounts and term deposits.

Reasons for borrowing mirrored the reasons for savings i.e. to cope with emergencies or shortages of money followed by business expansion. The level of borrowing remains small regardless of income level although the propensity to borrow increases with income. The principal source of borrowing is family and friends. The main reasons for not taking up a loan related to the fear or the possibility of not being able to pay back. Bank lending remains very limited especially from the conventional banks.

More than half of the adult population have never heard of insurance while less than a quarter knew how it functioned. The main reason for having insurance is that it is legally compulsory or that someone else pays for it.

Informal financial services are the most frequently resorted to by the adult population (accessed by 14.6% of the adult population mainly for savings purposes). Both poorer and richer elements of society use informal services, implying that products provided are often more appropriate or accessible to a broad base of the population than those of formal providers. *Xitiques* (revolving savings groups with members taking turns at sharing the pot) are most important involving 5.7% of adults. Other informal financial services include funeral associations, *contas da família* (an account shared by extended family members to mitigate financial emergencies), *xitique geral* (compulsory savings contracts) and community based savings and credit associations (commonly known as ASCAs, derived from "accumulating savings and credit associations") which were introduced to the country about a decade ago and which have spread quickly through donor programmes in rural areas.

Women behaved in proportionately exactly the same way as men in terms of access but their level of participation was slightly lower for each product category (savings, loans, insurance and transactions).

Expanding the outreach of financial services has been a priority objective of government, donors and the private sector. This study emphasises the importance of continuing to maintain that priority. The study has also shown that expanding the financial access strand is not just a question of supply but is intrinsically dependent on demand which, in turn, is strongly influenced, not only by levels of disposable income, but also by potential client perceptions of the financial service providers.

The main recommendations arising from the study are to:

- Promote a coordinated national financial access/inclusion strategy
- Improve stakeholder dialogue through broader forms of interaction
- Promote public/private/donor partnerships through initiatives that expand outreach and stimulate product innovation
- Develop and promote rural pro-poor financial products such as informal community based credit and savings groups and formal savings and credit cooperatives
- Reform the restrictive regulations governing savings and credit cooperatives
- Improve targeting of potential clients through more effective advertising and media (e.g. community radio networks)
- Promote financial literacy
- Develop cellphone banking services
- Develop appropriate insurance products (e.g. microinsurance)

# PART I BACKGROUND

## 1. Introduction

Mozambique, until recently, considered to be the poorest country in the world has made great strides since reverting to a free-market economy in the mid-1980s and the Peace Accord of 1992. Enjoying political stability and consistently high growth rates over the past decade, significant inroads have been made in reducing poverty. However, as the findings of this study demonstrate, poverty is still pervasive and the gap between the living conditions of the rural and urban population cause for considerable concern.

It is generally recognized that one of the principal barriers to economic growth and reasons for persistent poverty is the exclusion of the vast majority of the population from *appropriate* financial service provision. Emphasis is placed on appropriateness as financial service needs vary considerably between the poorest and wealthier segments of the population. Increasing access to financial services especially in rural areas is high on the Government of Mozambique's agenda and is being promoted in a variety ways ranging from incentives for commercial banks to open rural branches, promoting innovation and outreach for both formal and informal service providers through grants and credit lines and offering rural entrepreneurs subsidized loans through the district administrations.

The multilateral donor-funded Financial Sector Technical Assistance (FSTAP) aims to develop the institutional capacity of the financial sector through a variety of funding activities supporting a broad range of stakeholders.[2] It was designed according to the needs identified in the Mozambican Poverty Reduction Strategy (PARPA). FSTAP is implemented by the Central Bank of Mozambique, the Ministry of Finance, the Ministry of Justice and other government entities. It is supported by the AfDB, DFID, German Development Cooperation, SIDA and World Bank.

The FinScope Mozambique 2009 study is an FSTAP initiative hosted by the Ministry of Finance and funded by German government through the Kreditanstalt fuer Wiederaufbau (KfW). The FinMark Trust (FMT) which has undertaken a series of FinScope surveys across Africa and Pakistan over the past few years, provided technical assistance for the implementation of the survey. AustralCOWI was contracted by FMT to support the implementation of the survey and present the findings while the National Statistics Institute (INE) designed and controlled the sampling methodology.

Currently, there is no clear quantitative measure of the extent of access to financial services in Mozambique. Better access indicators will be valuable in promoting wider access to financial services for the poor in Mozambique by:

a) Raising the profile of the issue and allowing for inter-country comparisons, thus providing a solid empirical basis to track progress and provide an impetus for necessary reforms;
b) Providing information to policymakers about the main barriers to access;
c) Providing information to the private sector about market opportunities; and
d) Providing data for use in academic research into the impact of access to financial services on growth and poverty reduction.

The primary objective of the survey is to measure access to finance by individuals across the country, contributing to the development of a comprehensive understanding of the landscape of financial service in Mozambique. The results will provide a benchmark measure of effective access to financial services.

[2] The various components include: strengthening the regulatory and supervision framework for banking and non-banking financial institutions, including the insurance and pension sectors; strengthening the social security coverage and management; developing an efficient national payments system; improving the legal and judicial environment for loan provision operation; and extending the financial services, especially to rural areas through the improvement of microfinance institutions' operations.

This report documents the principal findings of FinScope Mozambique 2009 and presents recommendations for stakeholders of Mozambique's financial sector. FinScope Mozambique 2009 is a nationally and provincially representative survey of the perceptions of the adult population about financial services and issues. It provides insights into how adults source their income and manage their financial lives. It looks at the use of, and demand for, financial services as well as attitudes, behaviour and quality-of-life factors that could impact on access to, and the consumption of financial services and products. The focus is on the total adult population – rich and poor, urban and rural.

The use of all financial products – formal as well as informal – is explored to build a comprehensive picture of the demand side of the financial market. In addition, the potential role of the informal sector in financial market development is considered.

The breadth of information collected in the survey allows analysis of the population across a multitude of different variables such as specific provincial, rural / urban, income level, household size, age group, gender, etc. This report captures the main findings in a manner comparable to FinScope reports in other countries. However, there is clearly still much analysis that could be performed on the data that has not been covered in this report. Stakeholders are recommended to review the data available to see how it can help them to address financial and development questions that are significant to them.

## 2. FinScope Objectives

FinMark Trust (FMT) developed the FinScope survey as a tool to assess financial access in any particular country and to identify the constraints that prevent financial markets from reaching out to poorer consumers. The FinScope survey looks at the use of, and demand for, financial products and services and how this varies across the adult population.

The survey aims to establish credible benchmarks and indicators of access, provide insights into regulatory and market obstacles to growth and innovation and highlight opportunities for policy reform where government can actively drive financial inclusion initiatives. This is achieved by gathering information on a wide spectrum of financial usage and interest areas, including key product categories such as transactional services, savings and investment, credit and insurance.

Broad themes captured by the survey are tailored to suit local situations and information needs. These themes include:

1. Housing and asset ownership as indicators of wealth and vulnerability e.g. cellphone, water and power access;
2. Expenditure and transaction information such as financial priorities, method of payment, financial strategies for life events e.g. births, marriage, sickness, funerals;
3. Sources of income including adults who run their own business, types of salaried employment and insights into farming and fishing as sources of income;
4. Access to financial and other key infrastructure such as banks, markets, and airtime sources;
5. Financial decision making, attitudes and knowledge/literacy – awareness of providers;
6. Financial product usage and influencing factors in selecting product types including transmission services, savings, investment, loans and insurances; and
7. Demographics and psychographics such as life aspirations, education levels, choice of health service provider and levels of income.

The overall objectives of the FinScope surveys are twofold: –

(i) To measure the current levels of access to financial services and describe the landscape of access; as well as to

(ii) To support commercial innovation – access to finance can only improve if financial services providers deliver products and services to more people. FinScope has a proven track record in stimulating new product innovation for lower income consumers.

FinScope's standardized methodology ensures that a country's progress towards achieving success in improving access to finance can be compared and monitored, engendering peer pressure between countries. Comparison of FinScope surveys within a region also contributes towards greater harmonization, cross-fertilization and regional integration around financial policy.

FinScope therefore plays an important role in building the information architecture that is key to strengthening a financial sector's organisational and institutional infrastructure.

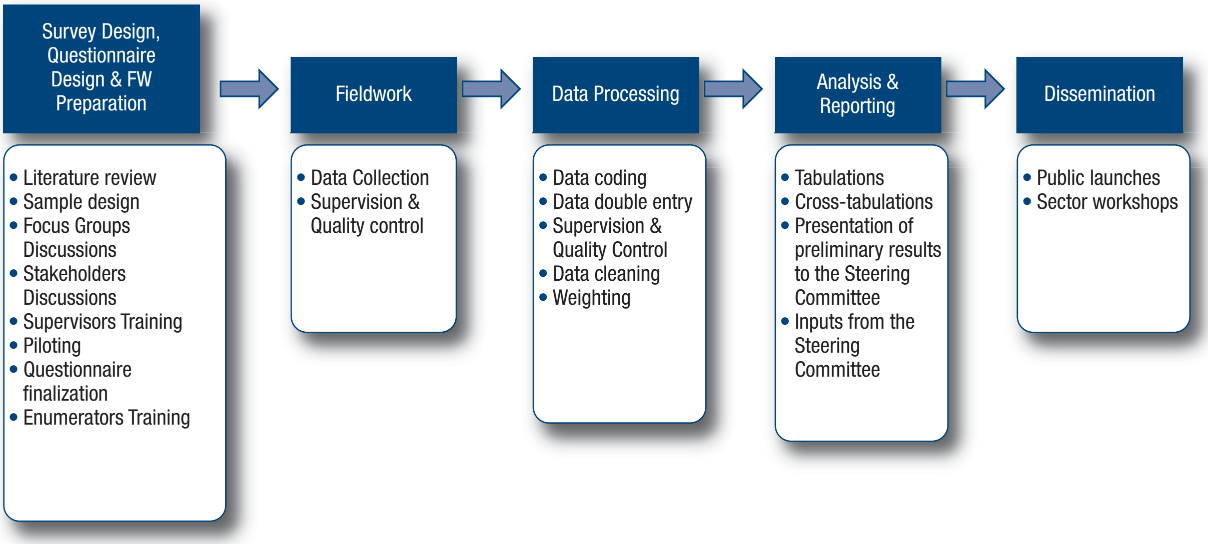
***FinScope milestones***

FinMark Trust is a not-for-profit Trust with DFID funding. FMT's vision is to support the development of financial markets across Africa. By 2012 it is intended that 20 countries in Africa will have undertaken the FinScope survey and that repeat surveys will take place on a two to three year cycle to enable trends within countries to be monitored and compared with peer countries. The full FinScope consumer survey has been completed in 12 African countries to date including Mozambique – South Africa, Botswana, Namibia, Zambia, Kenya, Tanzania, Uganda, Nigeria, Rwanda and Malawi. Pilot surveys have also been conducted in Lesotho and Swaziland. Eight countries are in the process of or have completed repeat surveys to track progress made in improving financial inclusion since the initial baseline survey. Ghana is underway to implement the first survey and interest has been expressed by other African countries, Morocco, Sudan and Burundi as well as by several non-African countries.

# 3. Implementation of FinScope Mozambique

Figure 1 below outlines the five implementations phases of FinScope Mozambique Survey.

### Figure 1 – Implementation stages




***Questionnaire Design***

The questionnaire design phase comprised of a literature review, three key stakeholder meetings and 17 focus groups discussions with the aim of developing and contextualising the FinScope Mozambique questionnaire. Key stakeholders comprised representatives of the Ministries of Finance and Planning & Development, the Central Bank, commercial banks, microfinance banks, *microbancos*, credit cooperatives, insurance companies, and NGOs. Focus groups were undertaken among different socio-economic groups (fisherman, public officials, farmers, migrant workers, private sectors workers, cross border traders, market vendors and entrepreneurs) in order to capture the different views, attitudes and habits towards finance. These discussions were critical in adapting the basic FinScope questionnaire to reflect the realities of Mozambique. The final English questionnaire for the FinScope Mozambique 2009 survey is included in Annexure 1 of this report.

***Sample frame methodology***

A stratified two-stage sample design was used for the survey. The primary sampling units (PSUs) selected at the first stage were the enumeration areas (EAs) delineated for the 2007 Mozambique Census. The sample of 488 EAs for the survey was selected systematically from each stratum (province, urban/rural) with probability proportional to size (PPS).The measure of size for each EA was based on the number of households in the sampling frame based on the preliminary 2007 Mozambique Census data. The frame of EAs within each stratum was sorted geographically by district, *posto administrativo, localidade, bairro*, supervisory area (AC) and EA codes. With systematic sampling, this ordering of the sample EAs provides a high level of implicit geographic stratification and ensures an effective distribution of the sample.

Following the first sampling stage a listing of households was conducted in each of the sampled EAs, and a sample of households was randomly selected from the listing at the second stage for the purpose of the survey. Twelve (12) households were randomly selected in each of the sampled urban EAs and nine (9) households in each of the sampled rural EAs.

After the household sample was drawn for each of the sampled EAs, a respondent from each household was selected at random from household members aged 16 years and older. A Kish grid was used for this purpose.

Based on the sample of 488 sampled PSU's (266 rural and 222 urban) the potential sample size was 5058, however accessibility problems during fieldwork resulted in 3 EAs not being surveyed in Zambézia Province, thus the final achieved sample was of 5028.INE endorsed the final sample.

Table 1 below shows the provincial distribution of the sample as well as the planned and realized interviews per province.

### Table 1 – Sample Distribution per Province

| Provinces | Planned number of EAs | Realised no of EAs |
|---|---|---|
| Niassa | 420 | 420 |
| Cabo Delgado | 465 | 465 |
| Nampula | 606 | 606 |
| Zambézia | 588 | 558 |
| Tete | 282 | 282 |
| Manica | 459 | 459 |
| Sofala | 582 | 582 |
| Inhambane | 414 | 414 |
| Gaza | 480 | 480 |
| Maputo Province | 450 | 450 |
| Maputo City | 312 | 312 |
| **Total** | **5058** | **5028** |

***Fieldwork preparation***

The main tasks performed during fieldwork preparation were the training of supervisors, questionnaire piloting and finalization and enumerator training.

Before the training, a comprehensive field manual outlining the various methodologies, interviewing techniques and field protocols was developed. Eleven (11) Supervisors were trained during 5 days in Maputo by the Project Manager and INE survey specialists. After the training, the field supervisors travelled back to their respective provinces to conduct 5 pilot interviews each, two in an urban area and 3 in a rural area. The purpose of these pilot interviews was to test the questionnaire for logic and flow as well as respondent comprehension of question content, phrasing and terminology used. During the pilot exercise, supervisors provided daily feedback for questionnaire finalization and for the production of glossaries of terms in each of the local languages.

Three weeklong training sessions were carried out for enumerators, one in Maputo attended by the local teams as well as enumerators from Gaza and Inhambane provinces. A second session in Beira was attended by the local team plus Tete and Manica while the third session in Nampula was attended by the local team plus the Zambézia, Cabo-Delgado and Niassa teams. The sessions were conducted by the AustralCOWI Research Manager and an INE specialist, with FinMark Trust country representatives overseeing.

### *Fieldwork*

Fieldwork took place from April to June 2009 and was carried out by eleven teams, one team per Province and Maputo City. Each team comprised of one supervisor, one assistant supervisor and ten enumerators. The country was subdivided in three regions, each with a survey coordinator. Overall coordination of fieldwork fell under the national field coordinator. Field supervisors were responsible for guaranteeing the quality of enumerators' performance by back-checking 20% of each enumerators work and by reviewing on a daily basis all the questionnaires for completeness, consistency and accuracy.

Apart from the field visits undertaken by the regional coordinators and survey coordinator, further field visits were made by INE and FMT representatives to ensure that the sampling procedures were effectively followed.

A set of completed questionnaires (rural and urban questionnaires from each enumerator) was checked for quality purposes (completeness and logic) by a representative from ICC (to assist FMT).

INE, FMT, and ICC signed-off on quality of fieldwork.

As shown in Table 1, from an initial total sample of 5058 individuals, a total of 5028 face-to-face interviews were successfully conducted.

### *Data Processing & Quality Control*

Data processing was carried out at AustralCOWI Data Processing Unit in Maputo. Data entry was done using CSPro (Census & Survey Processing System) by a team comprising a Data Base Manager and 30 data entry clerks who also carried out data coding. The Data Base manager was responsible for designing the data base, monitoring the data entry process, cleaning the data base and carrying out all the quality control procedures.

A number of precautionary measures were taken throughout the process to ensure quality of the process and outputs, namely:

- CSPro data entry template designed in order to allow for range and consistency checks to entered values;
- Appropriate training of data entry clerks and a written manual explaining all capture procedures;
- Data entry clerks double captured questionnaires until an acceptable margin of error (less than 2%) was achieved;
- Direct supervision of the process by the Data Base Manager, the Research Manager and FinMark Trust;
- Data cleaning and consistency checks performed by the Data Base Manager;

The main output of this phase was a clean database in SPSS (the Statistical Package for the Social Science) format. Before the data was sent to INE for weighting, the final data set was checked and signed-off by FMT. INE weighted and validated the data using the preliminary data of the 2007 Census. In order for the sample estimates from the FinScope 2009 to be representative of the population, data was multiplied by a sampling weight, or expansion factor.

### *Analysis & Reporting*

Analysis of the data commenced after receiving confirmation from INE that the data was approved. Analysis was performed by AustralCOWI in conjunction with FMT representatives during the last week of July and first week of August. Tabulations, Cross-tabulations & Principal Component Analysis were the main analyses that were performed. The report was written during the same period and benefited from the Technical and Steering committee inputs. Preliminary findings were presented to the Technical and Steering committees at the end of July 2009.

# 4. The Financial Sector

***The economy***

The economy of Mozambique has transformed and developed through phases which are intrinsically linked to its dramatic political history. Independence in 1975 was followed by an initial phase of planned economy relying on government ownership and a socialist development model. As elsewhere in Africa, the socialist model did not lead to the expected growth rates and development and, in the Mozambique case, the situation was aggravated by a prolonged war of destabilization. A peace agreement and the initiation of a multi party political system based on free elections was agreed in 1992. In parallel, but starting already with Mozambique's membership with the World Bank in 1984, the government began pursuing a market oriented model with liberal trade regimes, privatisation and reliance on market forces including structural adjustment. Since peace, Mozambique has enjoyed political stability and a strong economic growth. Mozambique's GDP growth has been among the highest in the world since 1996 with the economy growing consistently between 7 – 8 per cent annually.

Fundamental to the encouragement of private sector development has been the impressive spread of infrastructure: major strides have been made in the rehabilitation of the road network and railway lines; 73% of districts are now linked to the national electricity grid; fixed phone lines and cellphone coverage reach 91% and 87% of the districts respectively. In mid-2009, Mozambique, along with other eastern African countries and South Africa, was hooked up to an underwater fibre optic cable. Although considerable progress has been made in bringing infrastructure to the rural areas, the chasm between urban and rural economic development is enormous.

Despite the impressive growth, more than half (54%) of the population still live in poverty[3], many without access to basic education and health services although major strides have been made in expanding public sector services and towards attaining Millennium Development Goals (MDGs).

Once considered to be the poorest country in the world, Mozambique has been showing a steady economic growth and the enormous expansion of the country's education system, have pushed the Human Development Index (HDI) steadily upwards. A recent World Bank study[4] states that the reduction in rural poverty in Mozambique "is one of the greatest success stories anywhere in the world".

***The financial sector***

Perhaps the clearest manifestation of Mozambique's new development paradigm has been the growth and evolving sophistication of the commercial banking sector. Despite such encouraging trends, the sector still remains considerably underdeveloped.

The commercial banking sector dominates the financial system, accounting for more than 90% of the system's total assets. All commercial banks in Mozambique are majority foreign-owned. Four of the 14 conventional commercial banks, including the two biggest ones, are owned by mainly by Portuguese banks and four by South African banks. The sector is highly concentrated, with the two largest banks accounting for 70% of market. Competition in the banking sector is very limited, and the level of operational efficiency is well below international standards. 2008 saw the launch of two new commercial banks – Banco Terra and Moza Banco. The former focusing on agriculture and agri-business as well as SMEs. A new investment bank (Portuguese and Mozambican capital) was announced in 2009).

[3] Ministry of Planning and Finance and the International Food Policy Research Institution, Purdue University, 2004. *Poverty and Well-Being in Mozambique: the Second National Assessment*, Maputo.

[4] World Bank, 2008 *Beating the Odds: Sustaining Inclusion in Mozambique's Growing Economy Poverty*, Gender and Social Assessment for Mozambique, Washington



The Mozambican banking sector is relatively well capitalized and, in recent years, has become highly profitable due to high interest rates and service charges. The share of non-performing loans in bank's balance sheets has been steadily declining since 2003 when it reached 22% of total loans vs. 5% in 2006 and more recently at around 2%. Total assets in the banking sector stood at USD 4.1 billion at year end 2008, an increase of 15.3%. Loans outstanding to the private sector increased by 39.4% in 2008[5] reaching USD1.7 billion (credit to tourism grew by 41%, trade (35%) and industry (24%). The trade sector dominated the outstanding volume of loans (24.7%)[6]. The volume of total deposits increased by 25.6% to USD 2.9 billion. Fuelled by financial incentives and competitive pressure to maintain market shares, the larger banks are aggressively spreading into rural areas especially targeting the salaried workforce.

As of mid-2009, the five largest banks had a total of 1,483,440 bank accounts (all types and for individuals and enterprises)[7]. 73% of the accounts were held with the two largest banks. Of significance is that the largest of the microfinance banks, in operation for only 9 years, has already captured 12% of the accounts.

Bank credit is now channelled to three main client groups, all characterized by low risk: large companies, short term commercial loans (working capital) and salaried employees (consumer loans). Not only do small businesses continue to be marginalized, but the sectoral flow of credit volumes demonstrate that the growth and relative shares of the two most important sectors in terms of potential for economic growth – agriculture and industry – have lagged considerably behind other sectors. Although the value of bank credit grew by 120% from 2003 to 2007, growth in agricultural and industrial credit grew by about half the overall rate with their share of total loans dropping to 16% and less than 10% respectively.[8] With the recent launching of a commercial bank focusing on agricultural and small and medium enterprise loans, the situation is expected to improve although typically, the larger banks have only about 5% of their portfolio devoted to agriculture.

The 2003 Investment Climate Assessment (ICA) of the World Bank/IFC ranked access to finance as the most important constraint to the private sector. The 2008 ICA found that it ranked as the second major constraint.[9] This suggests that the situation may have improved slightly but other studies confirm that growth of micro, small and medium sized enterprises (MSMEs) is seriously hampered by the lack and high cost of credit.[10]

There are encouraging signs that credit is becoming more easily attainable through the commercial banking system (improvements in capital adequacy and asset quality indicators, falling interest rates and decreasing spreads). Nevertheless, the situation is still cause for considerable concern: deposits levels are generally fair, constituting 29.5% of GDP but credit as a share of GDP remains low (17.1% in 2008). Credit to domestic firms stands at 14% of GDP – close to *half* the average for sub-Saharan Africa (26%) and significantly lower than the average for low-income countries (18%).[11] In stark contrast to the conventional commercial banks, loans from the microfinance banks outweighed savings by a factor of about 2 vs. a loan/deposit ratio ranging from 30-70% for the commercial banks.

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5 Bank of Mozambique figures indicate an increase in lending from June 2008 – June 2009 of 53%.

6 Industry accounted for 15%, transport and commerce 9%, agriculture 8%, construction 5% and tourism 4% while other categories accounted for 33%.

7 Information obtained from the Bank of Mozambique which excludes the accounts of 5 smaller banks with account facilities but whose total is relatively small.

8 Bank of Mozambique data obtained from the *Anuário Estatistico 2007*, INE, 2008.

9 World Bank/IFC, 2003 *Mozambique Investment Climate Assessment*. Washington and Word Bank, *2009 Mozambique – Investment Climate Assessment*, Washington

10 For example, the Ministry of Planning and Development, in a 2006 survey of 158 manufacturing companies, found that manufacturers consider the cost of finance to be the greatest obstacle to growth, with credit access ranking third (of 25 issues). See National Directorate of Studies and Policy Analysis (DNEAP), 2006. *Enterprise Development in Mozambique: Results Based on Manufacturing Surveys in 2002 and 2006*. Discussion Paper No. 33E. Maputo.

11 See Nathan Associates, 2007.Financial Sector Constraints on Private Sector Development in Mozambique USAID and IMF, 2007. Republic of Mozambique: Selected Issues. IMF Country Report 07/258. Washington.

Several important new regulatory developments have taken place: the central bank Bank of Mozambique (BoM) reduced its legal reserve requirement by 1.5% to 9% in April 2008 and then again to 8.5% in 2009 bringing it more into line with the average rate for southern Africa. The BoM also introduced new regulations requiring banks to compile their financial reports in accordance with International Financial Reporting Standards (IFRS). The BoM has also recently prohibited the charging of fees for services such as obtaining account balances.

Currently, the microfinance industry (ranging from three commercial banks to informal community-based savings and lending groups) in Mozambique is still comparatively small. By the end of 2007, the ten largest operators had just over 90,000 borrowers, about 147,000 savers and an outstanding loan portfolio of about USD 51m. Although microfinance provision has grown substantially over the past 15 years, microfinance lending has been almost exclusively limited to retailing and commodity trading. In recent years, especially since 2000, significant developments have occurred resulting in the introduction of methodologies and products that have benefited small holder farmers, fishermen, processors, traders and a variety of other enterprises. Significant headway has been made in developing a savings and credit culture within isolated communities as well as channelling budding entrepreneurs from these communities to formal financial service providers.

A number of "microcredit operators" (in the form of associations, foundations and projects) have provided services to the rural areas since the mid-1990s, usually with the financial support of donors. Although many focus mainly on rural trading activities, some are providing an increasing percentage of their portfolio to agriculture and fishing. The relatively new institutional category of microbanco has been created to promote microfinance institutions to provide similar financial services as conventional banks but with less rigorous capital requirements.

The formal financial sector is further comprised of a variety of registered financial operators offering a variety of financial services such as credit, leasing, pension funds, insurance and money transfer.

Informal financial services have been largely provided by mainly urban-based groups such as *xitique* (rotating savings groups) *xitique geral* (ambulant deposit takers) and funeral associations. In rural areas, community savings and lending groups, more commonly known in Mozambique as "ASCAs" (derived from "accumulating savings and credit associations") have spread rapidly during the past decade and now account for some 70,000 members.

***Financial service coverage***

The geographic distribution of banking facilities remains highly skewed. The total number of bank branches in June 2009 was 317 (up from 298 since the previous year). Almost half (46.7%) are located in within the Maputo-Matola axis. Figure 2 demonstrates that more than three quarters (78%) of all branches are located in the capital, provincial capitals or the "cidades" of Maxixe and Nacala Porto. In terms of district coverage and population per branch, the provision of banking services sharply declines as one moves northwards away from the economic hub of Maputo-Matola. In 2008 there were 453 ATMs in the country of which 258 (57 per cent) were in Maputo city and environs. The number of institutions where clients can pay with credit or debit cards in 2008 stood at 3,747 of which more than 70% were in Maputo City and Province.

Much publicity has been given to the *bancarização rural* and the expanding outreach of commercial banks. In order to increase banking presence in less-attractive areas, the Bank of Mozambique (Central Bank) has issued a set of economic and tax incentives for new banks to install their headquarters in underserved areas and for already established banks to open branches in those locations (see next section).

The 2005 microfinance survey[12] also found a high degree of regional disparity in microfinance provision. The Maputo-Matola axis alone is served by 14 operators who supply credit to more than half (50.8%) of nation's active micro-borrowers (58% of portfolio) Of the 32 operators surveyed in 2005, only seven were dedicated to serving mainly rural areas. The survey found that these seven operators reached only 11% of all borrowers, and because of the small size of these rural loans, the clients accounted for only 5% of the country's total active portfolio.

***Expanding rural outreach***

An important but little known component of rural finance are the Government-run apex funds. In order to expand outreach, donor and lending-agency funds have been channelled into three apex funding agencies that provide wholesale loan capital to financial service providers.[13] In addition to these wholesaling operations various donors are supporting the growth and expansion of rural financial operations with grants (mainly to expand operational structures and promote innovative products) and, lines of credit.

In 2006, as part of its decentralization strategy and poverty reduction campaign, the government launched the Budget for Local Initiative Investments (OIIL) otherwise known as the *Fundos de Distritos* or the *"sete milhões"* (7 million) referring to the number of meticais available to each district annually. The funds are meant to be loaned to bona fide entrepreneurs or other economic agents generate income and employment.

The Government's Rural Finance Support Programme (RFSP) launched in 2005 (funded by the AfDB and IFAD) has also had significant ramifications for rural finance, but particularly at the microfinance level in terms of promoting outreach with grants and loans for existing MFIs and start-ups as well as the promotion of ASCAs and rural finance associations.

***Access Issues for Small and Medium Enterprises***

Access to small and medium enterprise (SME) finance still rates as one of the top concerns of the private sector (though decreasing to 2nd place in the 2008 Investment Climate Assessment. The 2010 World Bank Doing Business in Mozambique assessment found a general improvement in the business environment with an improvement in its general ranking from 140 to 135 but, notably, in terms of "getting credit", the situation deteriorated from 125th to 127th place.

The private sector argues that loans are extremely difficult to access and that guarantee requirements are too stringent. The banks argue that potential borrowers are unable to submit acceptable loan proposals. A major issue has been the high cost of interest but this has been declining. Commercial banks are currently charging around 16-20% p.a. for SME loans, however the large microfinance commercial banks are charging interest rates of around 50% even for longer term loans.

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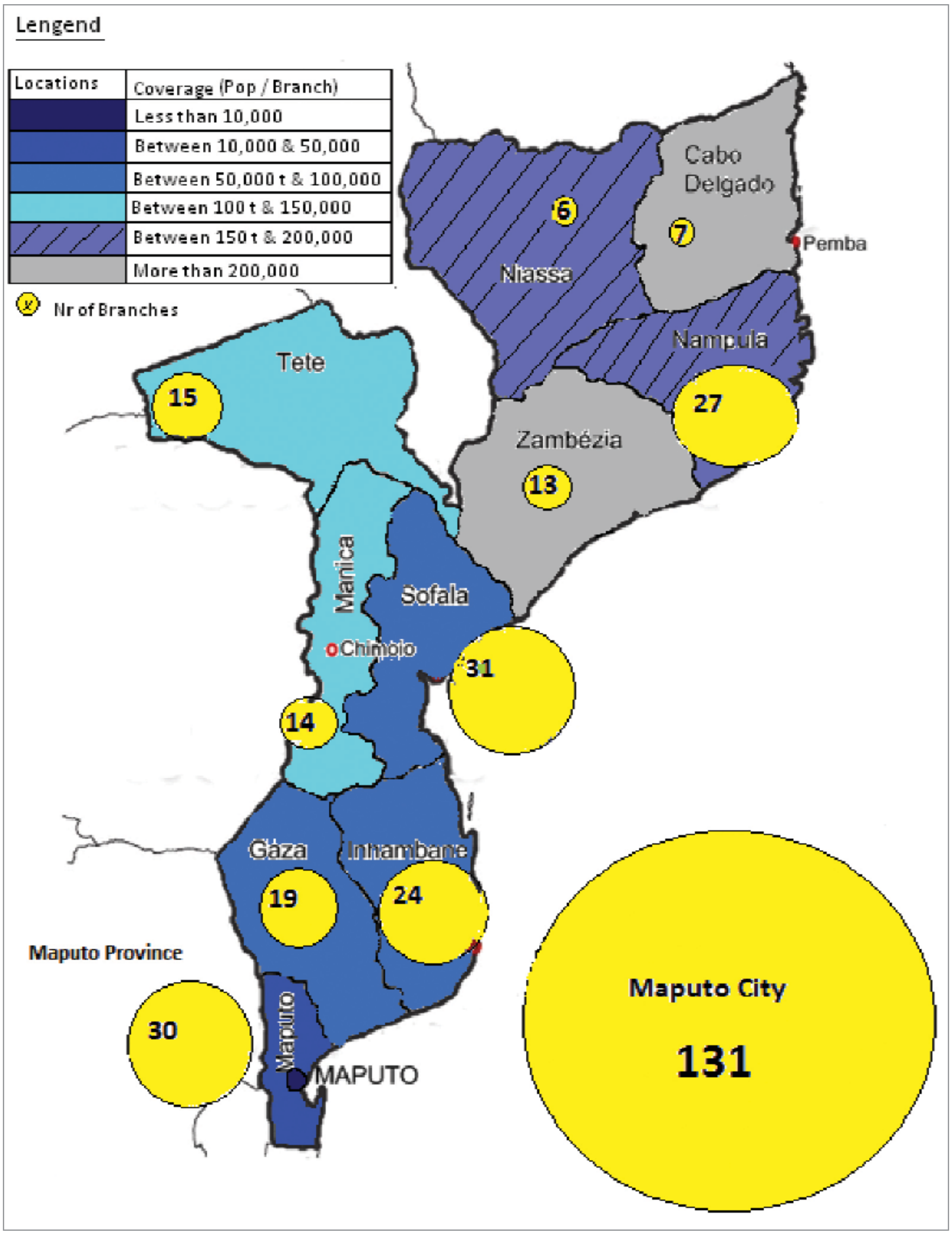
[12] Fion de Vletter, 2006. *Microfinance in Mozambique: Achievements, Prospects & Challenges* Mozambique Microfinance Facility/UNDP, 2006.

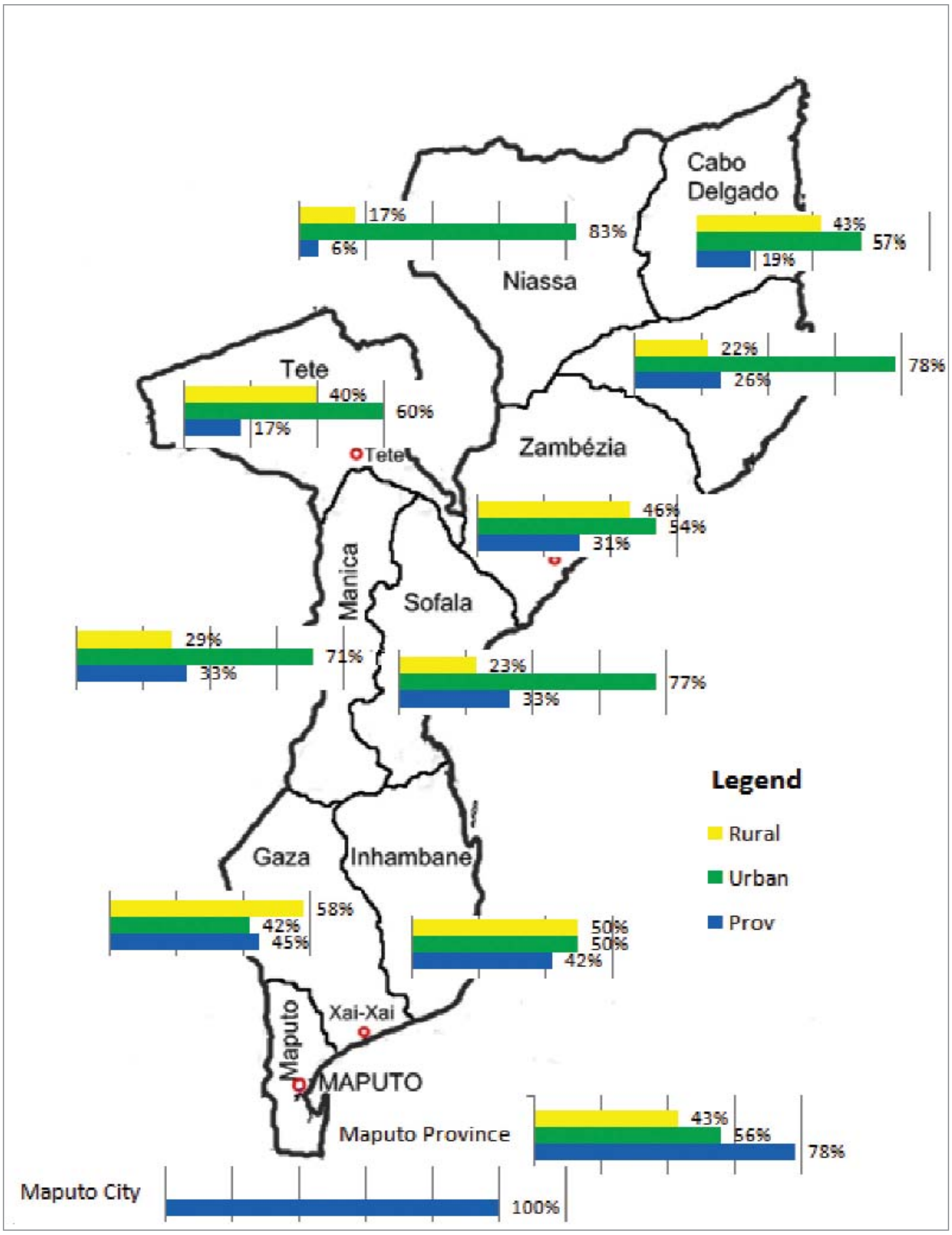
[13] These include the *Fundo de Fomento Pesqueiro* (FFP), the *Fundo de Apoio à Reabilitação Económica* (FARE) and funds held with the Ministry of Industry and Commerce.

### Figure 2 – Map of Bank Coverage (Pop / Branch) & Nr of Branches per Province




Source: Bank of Mozambique

## Figure 3 – Percentage of Districts with Bank Branches per Province and Area




Source: Bank of Mozambique

# PART II FINSCOPE MOZAMBIQUE 2009 RESULTS

## 5. Socio-Economic Profile

***Demographic characteristics***[14]

As explained in chapter 3 the sample is deemed representative of the country's adult population (16 years or older). The results of the survey presented in this report are therefore extrapolated to represent the country's adult population.

A large majority (66.1%) of the adult population live in rural areas, while the remaining 28.6% live in areas defined by INE as "urban". Somewhat more than half (55.1%) are women.[15]

### Table 2 – Marital Status

| Marital Status | Percentage |
|---|---|
| Formally married | 29.4 |
| De facto marriage (monogamous) | 28.3 |
| De facto marriage (polygamous) | 2.4 |
| Single | 28.9 |
| Divorced/ separated | 4.2 |
| Widow/widower | 6.7 |

The average age of the adult population is just under 35 (34.65) and the median 31 years. A majority of the adult population (59.7%) is Christian while less than a quarter (22.1%) is Muslim. Foreigners comprised only 0.3% of the sample, corresponding to equivalent of 34,988 of the total population base.

### Table 3 – Age Distribution

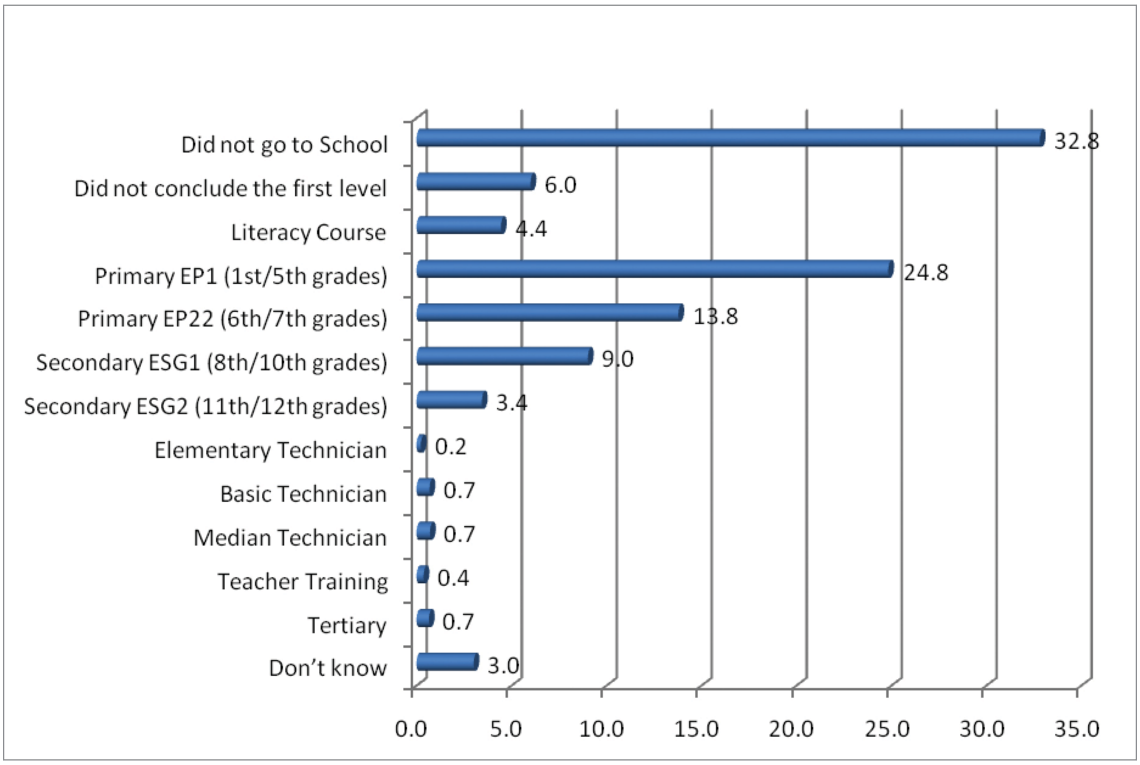
| Age Brackets | Percentage |
|---|---|
| 16 to 20 | 17.6 |
| Between 21 and 30 | 31.6 |
| Between 31 and 40 | 22.9 |
| Between 41 and 50 | 12.3 |
| Between 51 and 60 | 8.2 |
| 61 and more | 6.8 |
| **Total** | 100.0 |

[14] Readers are reminded that this survey is a survey of *individual* adults resident in Mozambique and *not a household survey*. As such comparisons cannot be made with household surveys. For example this survey found that almost 28.9% of adults living in rural Mozambique own a radio, while the 2005 TIA rural household income survey found that about 60% of rural *households* own radios. The difference is explained by the fact that each household (averaging approximately 5 members) normally has several adult members.

[15] Females represent 52.3% of the total population (2007 census). The reason for a larger percentage of *adult* women is explained by longer average life spans as well as the significant number of men who migrate to neighbouring countries (particularly South Africa) for employment.

***Education***

## Graph 1 – Levels of Education




Despite considerable investment into education since independence, Mozambique still has very low levels of education compared with other countries in the region. Graph 1 shows that one third (32.8%) of adults have not been exposed to any form of education or literacy class. Only 15.1% attained a level of education at the secondary level or higher. The situation is even more alarming when comparing rural and urban levels of education. In rural areas only 6.8% of the adult population attended secondary school or higher of whom almost three-quarters did not go beyond the first level (8-10th class). More than half (51.6%) either did not go to school at all (41.5%), did not complete any level of schooling (7.0%) or did not know what level they attained (3.1%). By contrast, almost a third (31.3%) of urban adults had some form of secondary schooling or higher.

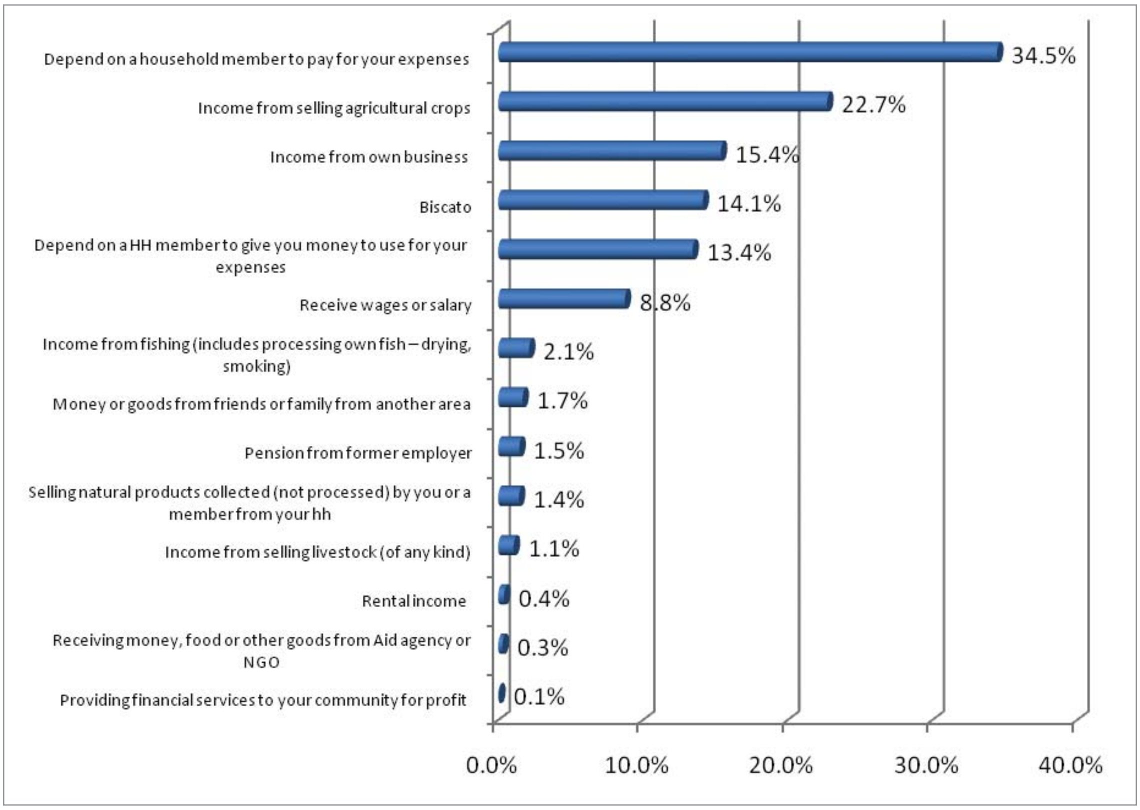
***Income***

Almost all (97.1%) adults receive some form of income; this includes those who get money from a family or household member, etc. Just over a third (34.5%) of individuals 16 years and older depend on another member to pay for their expenses, while 13.4% receive money from another member (the vast majority receiving this money in the form of cash and on an irregular basis). Graph 2 shows the main sources of income and demonstrates the dominance of the informal sector (agriculture, own business and casual employment (Biscato) being the three most common forms of cash income). Only 8.8% of the adult population is engaged in salaried employment (of which about a third receive their salaries through a bank).

In terms of agriculture income, it is important to note that, despite the increasing importance of agricultural marketing for cash crops, a large majority of those marketing their crops (71.3%) sell most of their produce through local markets while 27.7% sell their crops to traders, companies or through associations. Earnings from agriculture are very low: of the 90.5% of those who were willing to provide an estimate, over half (53.4%) earned less than 2,500MT in the past year, while only an insignificant number (1.8%) earned more than 50,000MT.[16]

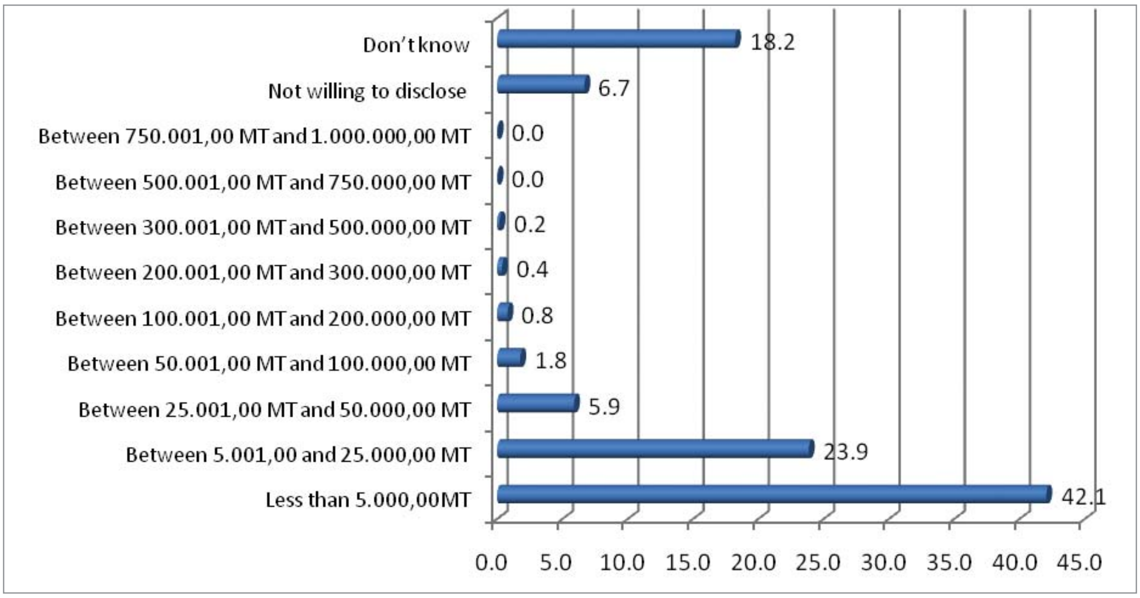
It should be borne in mind that income estimates derived from this type of survey should be treated with caution and seen as only indicative. Perhaps the most significant outcome from the response is the very high percentage (42.1%) of the adult population claiming to earn less than 5,000 MT per year.

### Graph 2 – Sources of Income




16 To demonstrate the low level of agricultural inputs used by Mozambican smallholders, of those selling agricultural produce, 12% used fertilizer, 10.3% used pesticides, 16.9% improved seeds, 1.3% hired a tractor, 3.7% used oxen to plough their fields and 8.7% hired labour.

### Graph 3 – Annual Personal Income




***Housing and basic amenities***

The vast majority (93.8%) of the adult population claimed that their residences were either owned by them (55.2%) or by a member of their household (38.6%). Only 3.7% were renting their residence while 1.8% claimed to be borrowing their place of residence from the owner. A very small number (0.2%) had a mortgaged residence.

Almost two-thirds (62.1%) of the population live in houses that were built exclusively of traditional materials (mud, sticks and thatch). As expected there is a considerable disparity between urban and rural housing types: more than three-quarters (76.1%) of the rural population live in houses made from traditional materials while just over a third (34.9%) of urban adults do.

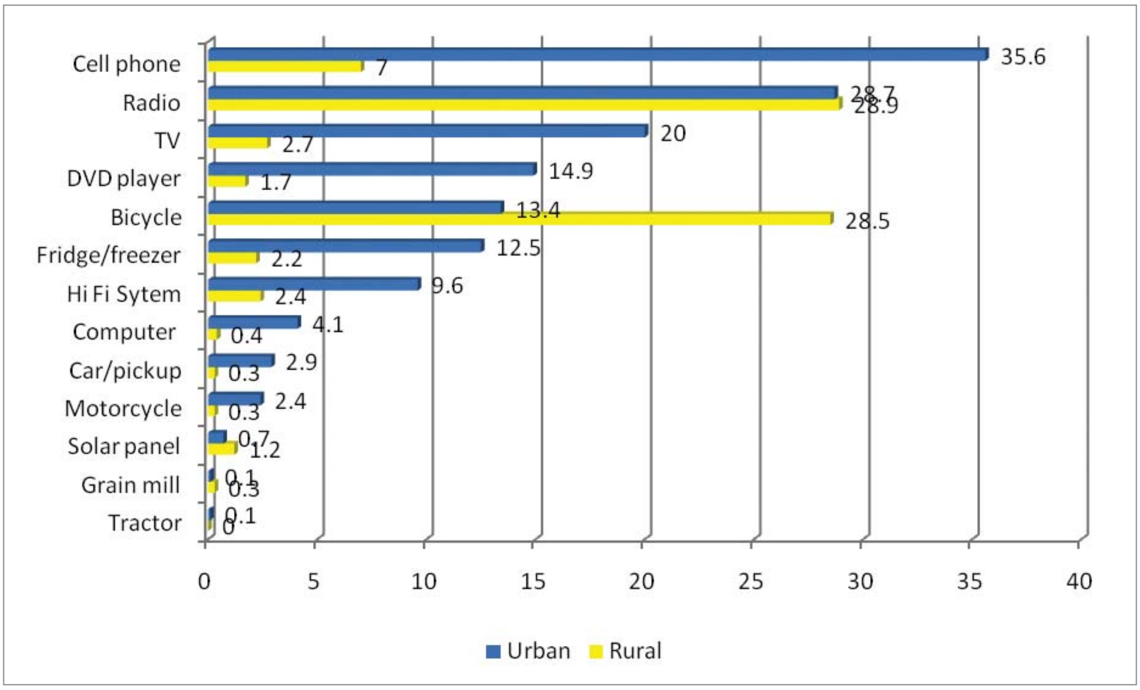
Almost half (46.7%) of the adult population obtain their water from a well (without pump) (28.7%) or from a stream, river or lake (18%).

The vast majority (70.8%) of the adult population depend on firewood for cooking, 15% on charcoal and only 4.4% use electricity. Electricity provides lighting for only 15.3% of the individuals, while over half (53.0%) depend on paraffin or kerosene.

***Other assets***

Graph 4 presents the ownership of selected assets, clearly demonstrating the gap in wealth between rural and urban populations with similarities only with regard to radio ownership. A significant advantage in rural ownership of bicycles is also noted.

### Graph 4 – Asset Ownership (by adult only) by Area




***Documentation***

Given the importance that conventional banks place on personal documentation[17], the survey analysed the degree of document ownership. Less than half (45.4%) of the adult population was in possession of an identity card (BI) and just over half (54.5%) had a birth certificate (or *cedula*). A very small number (4.9%) were in possession of a NUIT (tax number) and only 7.4% held a passport. Almost three-quarters (74.5%) had an election card. Table 4 summarising the possession of documents among the adult population living in urban and rural areas, shows a considerable gap in the two areas, being the biggest gag with regard to the possession of BIs.

### Table 4 – Possession of Documents

| Type of Document | Urban (%) | Rural (%) |
|---|---|---|
| BI/DIRE (identity card for nationals/residence permit for foreigners | 64.9 | 35.3 |
| Talão de BI (provisional ID Slip) | 65.4 | 48.9 |
| NUIT (tax number) | 11.1 | 1.8 |
| Passport | 13.2 | 4.4 |
| Election card | 72.2 | 75.7 |
| Driver's License | 8.8 | 1.2 |
| Water bill | 6.2 | 0.2 |
| Electricity bill | 9.9 | 0.4 |
| Title deed to house / building | 6.6 | 0.6 |
| Bank Statement | 8.9 | 0.9 |
| Lease or Rental Agreement (e.g. DSTV, TV CABO) | 2.0 | 0.1 |
| Salary payslip | 4.3 | 0.6 |

[17] Some banks, have introduced biometric banking to facilitate transactions but clients are required by regulation to have legal documents to open an account.

***Information access and connectivity***

A major constraint to accessing financial services in many areas is the limited telephonic/cellphone service or the capacity to afford them.

Although the mobile phone network coverage has increased significantly over the past few years (less than a fifth (19.4%) of the population stated that they their areas did not have mobile phone network coverage), almost two-thirds (63.4%) of the adult population do not have or use any means of telecommunications, the main reason being that they do have the resources[18]. About a third of the adults have either their own cellphone, a telephone or use one or the other belonging to someone else. Only 1.5% of the population did not know what a cellphone was.

Table 5 presents the access and ownership patterns of land line phones and cellphones. Cellphones were owned by 21.8% of the adult population while only 2.1% had telephones in their house. Computers were owned by 2.4% of adults while 2% use internet. Of these, just over half use the internet/send emails. A large majority (62.7%) of adult cellphone owners do not send text messages and just over a quarter (26.2%) send credit to other cellphone users. Only 3.5% of adult cellphone users had contracts.

### Table 5 – Connectivity

| Service | Access | | |
|---|---|---|---|
| | Total (%) | Urban (%) | Rural (%) |
| Own Cellphone | 21.1 | 41.5 | 10.6 |
| Someone else's cellphone | 21.3 | 37.9 | 12.8 |
| Public phone/ public cellphone | 11.1 | 25.2 | 6.1 |
| Telephone at home | 2.1 | 4.5 | 0.9 |
| Someone else's telephone | 2.8 | 6.3 | 1.0 |
| PO Box | 0.9 | 2.1 | 0.3 |
| Computer at home | 2.4 | 6.0 | 0.5 |
| Someone else's computer | 2.8 | 7.3 | 0.5 |
| Computer at Cybercafé | 2.0 | 5.2 | 0.3 |
| Internet/email at home | 1.1 | 2.6 | 0.3 |
| Use someone else's internet/email facilities | 1.3 | 3.2 | 0.4 |
| Internet/email at cybercafé | 1.3 | 3.2 | 0.4 |
| Fax machine at home | 0.6 | 1.3 | 0.3 |
| Fax machine elsewhere | 1.3 | 3.1 | 0.4 |
| None of the above | 63.4 | 33.1 | 79.0 |

***Access to Services***

To get a better impression of the quality of life of the population, the survey looked at the distances to basic services as well as probing them about their perceptions of their own well-being.

[18] 43.4% of the adults claimed that they did not have the resources to pay for a cellphone or cellphone services. 10% stated that they did not know understand cellphone technology.

### Table 6 – Services/Infrastructure Available within 1 hour from the Individuals Residence

| Service | Total (%) | Urban (%) | Rural (%) |
|---|---|---|---|
| Health post | 50.3 | 66.9 | 41.8 |
| Hospital | 17.7 | 39.2 | 6.7 |
| Primary School | 88.2 | 89.3 | 87.6 |
| Secondary School | 28.0 | 59.4 | 11.9 |
| Police Station | 38.7 | 65.1 | 25.3 |
| Market | 59.8 | 78.7 | 50.1 |
| Shop with cement walls/door | 28.8 | 55.5 | 15.1 |
| Post office | 13.9 | 31.2 | 5.1 |
| Tarred road | 38.0 | 69.1 | 22.1 |
| Source of clean water | 83.9 | 89.7 | 80.7 |
| NGO | 17.8 | 35.6 | 8.7 |

More than a third (37.5%) of the adult population did not have access to public or private transport facilities. However, Table 7 highlights the significant disparity of transport services between rural and urban areas: half (49.9%) of rural adults do not have any form of public transport available in their area while two-thirds of urban residents have transport always available.

### Table 7 – Availability of transport

| Availability of Public transport (including *chapas*) | Urban (%) | Rural (%) |
|---|---|---|
| Always available | 64.4 | 14.2 |
| During certain hours | 20.7 | 25.5 |
| During certain days | 1.7 | 10.4 |
| Not available | 13.2 | 49.9 |

***Quality of Life and Poverty Indicators***

Underscoring the extent of general poverty in Mozambique, 82% of the adult population says that there are times when they did not have money available. More than a third (35.3%) says that they are frequently without money and almost half (47.2%) say they were sometimes without money. Less than a tenth (9.5%) say that they are frequently without food while 35% says that they are sometimes without food. Noteworthy is that the patterns are similar between urban and rural adults. In terms of medical treatment, there was a more pronounced difference: in rural areas two-thirds (66.3%) say that they were either frequently (18.1%) or sometimes with medication or treatment that was needed vs. 42.4% in urban areas (8.6% frequently without and 33.8% sometimes).

One aspect of quality of life that rural populations seem to benefit more from, relative to their urban compatriots, is the absence of crime. In urban areas only a little more than a third said they never felt insecure due to crime in their area vs. more than half (54.7%) in the rural areas.

Despite high levels of poverty, a great majority of adults (82%) say that they are normally happy. Although more than a quarter (28.4%) of the adult population says that their lives are improving, 25.7% feel that their situation is worsening. Almost three-quarters (74.3%) are hopeful about their future. There was no significant difference in attitudes between urban and rural populations but there was a somewhat higher level of happiness and a feeling of life improvement in urban areas and about a 10% difference in terms of optimism about the future (the rural population tending to be somewhat more pessimistic). Perhaps reflecting the limited opportunities of rural life, there was a notable difference between those who felt they could do more with their lives: 79.3% of urban populations vs. 67.8% rural populations.

Adults were asked about their expenditure patterns during the past month, in terms of a variety of expenditure types that were felt to be useful in segmenting people's quality of life (excluding major expenditure items such as food). Noteworthy from Table 8 is the much higher proportion or rural residents spending money on transport and the considerably higher proportion of urban adults spending on higher lifestyle items such as restaurants, bars, discos, cellphones and hairdressers.

Table 8 – Expenditure Patterns of Selected Items (chosen to help quality of life segmentation)

| | Urban (%) | Rural (%) |
|---|---|---|
| "Chapa"/bus fares | 38.1 | 63.4 |
| Taxi (not "chapa") | 6.0 | 0.9 |
| Food at a restaurant | 6.9 | 1.0 |
| Bar | 6.8 | 2.7 |
| *Barraca* / informal selling stalls | 18.7 | 15.7 |
| Discotheque/ nightclub | 3.4 | 0.5 |
| Hotel | 0.9 | 0.1 |
| Guesthouse | 0.9 | 0.3 |
| Paying the telephone bill | 2.2 | 0.2 |
| Cellphone (contract or prepaid) | 33.0 | 6.4 |
| New clothes (including *capulana*) | 28.6 | 27.9 |
| Fuel (gasoline/diesel) | 9.0 | 9.3 |
| Wages for workers | 4.7 | 1.6 |
| Household cleaning products | 37.5 | 30.7 |
| Medicine from a pharmacy, clinic of hospital | 49.0 | 41.0 |
| Hairdresser/beauty parlour | 20.8 | 2.3 |
| Donation to religious organization/group | 10.3 | 4.7 |

## 6. Financial Behaviour, Literacy, and Coping Mechanisms

***Financial behaviour***

In relation to decisions relating to personal financial issues, over a quarter (27.5%) of adults make financial decisions on their own, while over half (53.8%) make financial decisions in consultation with their partner. Only 2.9% of the adults were not involved in financial decision making.

Only 16.2% considered their house to be a negotiable asset, with just under half (48%) saying that they did not want to risk losing their house (percentages based on the 55.4% who responded to the question).

When asked to whom they would approach if needing financial advice, almost half (47.1%) said they would consult family members or friends, while a quarter (24.8%) said they would go to a bank. Significantly 21.5% said that they would approach a community leader. However, underscoring most adults' unfamiliarity with financial issues, significantly more than half (57.3%) said that they did not know what type of information they would need to improve their relationship with financial service providers.

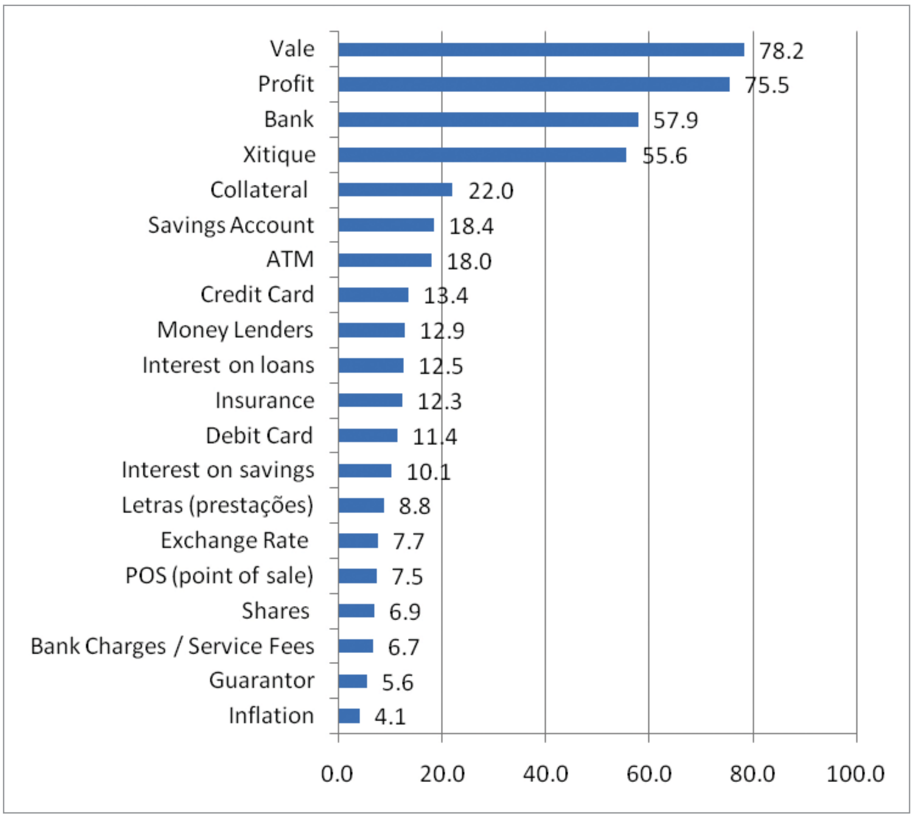
When adults were asked about how they would like to receive information about financial services, the response provided useful insight into how the population used the media and information technology: 39% said they would prefer to hear by radio, 22.3% preferred to meet directly with the service providers, 14.5% were partial to newspapers, 12.2% TV, 5.9% by telephonic conversation, 4.8% from billboards, 4.7% through the post (0.9% indicated that they have their own personal post box), 4.4% via the internet, 1.5% by email and 1.3% by SMS.

Presumably reflecting both easier access to banking services and higher crime levels, almost two-thirds (64.1%) of urban adults agreed with the statement "It is not safe to carry cash" vs. just over half (53.6%) of the rural. Similarly more than half (50.7%) of the urban adults agreed with the statement "It is not safe to keep cash in your dwelling".

***Financial literacy***

Graph 5 shows that the level of awareness of basic financial concepts such as the informal agreement between two parties in terms of credit/having borrowed money (*vale*) and profits are widespread in both urban and rural areas. However, less than half (48.6%) of rural adults do know what a bank is and only negligible percentages were aware of basic banking products or services. Urban adults were considerably more aware but, nevertheless, the level of awareness is low – though 40.5% knew what ATMs were, probably due to their visual pervasiveness in urban areas

## Graph 5 – Financial Literacy




***Coping strategies/mechanisms***

Adults were asked how they would cope in the event of a calamity (such as a fire, flood, death or illness) or an anticipated major event (such as a marriage, birth, university fees). For calamities the main recourse was to borrow money from relatives or friends, asking for donations (especially in the event of natural disasters) followed by the sale of assets (such as livestock) and reduction of household expenditures. A significant number mentioned resorting to religious groups. For anticipated events, two sources dominated to similar degrees: selling assets and borrowing money from relatives and friends. Drawing on bank savings was more dominant than for calamities, perhaps because of the planned elements of the anticipated events. Seeking help from religious groups was also a relatively important recourse as in the case of calamities.

## Table 9 – Coping with hardship

| Event | Sell assets / dispose of agricultural crop / livestock | Withdraw savings from bank | Cut down on household expenses | Borrow money from family / friend | Borrow money from employer | Borrow money from money lender | Borrow money from bank | Ask for assistance from religious group | Ask for donations | Claim insurance |
|---|---|---|---|---|---|---|---|---|---|---|
| Flood destroying house or property | 7.8 | 2.3 | 6.4 | 12.3 | 1.5 | 0.3 | 1.6 | 5.0 | 12.1 | 0.4 |
| Theft, fire or destruction of household/property | 11.7 | 2.8 | 9.6 | 19.2 | 1.8 | 0.3 | 1.9 | 6.1 | 8.8 | 0.5 |
| Drought | 8.5 | 1.2 | 3.2 | 9.7 | 0.8 | 0.2 | 0.8 | 4.9 | 11.4 | 0.3 |
| Loss of job of main wage-earner/ | 2.8 | 1.5 | 2.3 | 7.0 | 0.9 | 0.2 | 0.7 | 2.5 | 1.7 | 0.2 |
| Illness or accident so that main wage-earner can no longer work | 5.9 | 1.8 | 3.1 | 11.6 | 0.2 | 0.3 | 0.7 | 3.4 | 1.9 | 0.3 |
| Serious illness or accident of a member of the household | 8.3 | 2.3 | 5.0 | 14.5 | 1.4 | 0.4 | 0.8 | 4.2 | 2.6 | 0 |

## Table 10 – Dealing with anticipated events

| Strategies / Mechanisms | Wedding | Big celebration | Birth of a child | Primary or Secondary School Expenses | University fees of a close relative |
|---|---|---|---|---|---|
| Sell assets / dispose of agricultural crop / livestock | 24.3 | 21.1 | 23.3 | 21.1 | 11.4 |
| Withdraw savings from bank | 4.9 | 4.3 | 4.5 | 4.9 | **3.8** |
| Cut down on household expenses | 9.8 | 8.9 | 11.0 | 9.8 | 4.9 |
| Postpone plans to pay for something else | 4.7 | 4.8 | 5.6 | 4.7 | **2.4** |
| Use *Conta da Familia* (account shared by related families) | 1.8 | 2.3 | 2.4 | 2.0 | 0.9 |
| Borrow money from family / friend | 21.0 | 20.3 | 21.3 | 17.8 | **11.3** |
| Borrow money from *xitique* members | 0.8 | 0.7 | 0.8 | 0.9 | 0.6 |
| Borrow money from employer | 1.4 | 1.4 | 1.4 | 1.4 | **1.2** |
| Borrow money from money lender | 0.2 | 0.1 | 0.7 | 0.6 | 0.3 |
| Borrow money from a commercial bank, a microfinance institution or from a microbank | 0.5 | 0.3 | 0.3 | 0.5 | **0.6** |
| Ask for assistance from religious group | 5.4 | 5.0 | 5.5 | 3.6 | 3.8 |
| Ask for donations | 2.4 | 2.1 | 2.9 | 2.8 | **2.7** |
| Claim insurance | 4.8 | 4.6 | 5.0 | 5.3 | 3.9 |

# 7. Financial Access & Exclusion

The financial access strand (explained schematically in Figure 4 below) is one of the key measures of FinScope surveys. It illustrates the use of financial products and services available within the market. Those who do not access these products and services are considered to be "financially excluded" due to the fact that they are physically, psychologically or circumstantially impeded from accessing such products and services. The strand ranges from formal banking services provided by commercial banks at the one extreme, shifting to other formal financial services provided by a large variety of providers. Further along, at the other end of the access strand we find a vast range of informal services. This study focuses on five types of financial services: i) the safeguarding of funds; ii) transactions such as deposits, withdrawals and money transfers (remittances); iii) savings/investment; iv) credit; and v) insurance. Each of these services are provided in varying degrees by the banks or informal service providers, whereas formal financial service providers tend to offer specialized services e.g. credit, insurance, pension schemes, etc.

***Formal banking services***

For the purposes of this study, these services are provided by commercial banks as well as the special banking category "*microbanco*" as this type of institution offers all the basic banking products (current and savings accounts, loans and check books). 11.8% of the adult population was found to be formally banked. This formally banked population includes all those holding some form of personal bank account or shared with another person as well as including all those who are not clients but who have used banks for one reason or other (e.g. transferring or receiving money). Chapter 8 provides a detailed discussion of the use of the various products and services offered by the banks as well as barriers and banking-related attitudes.

***Other formal financial services***

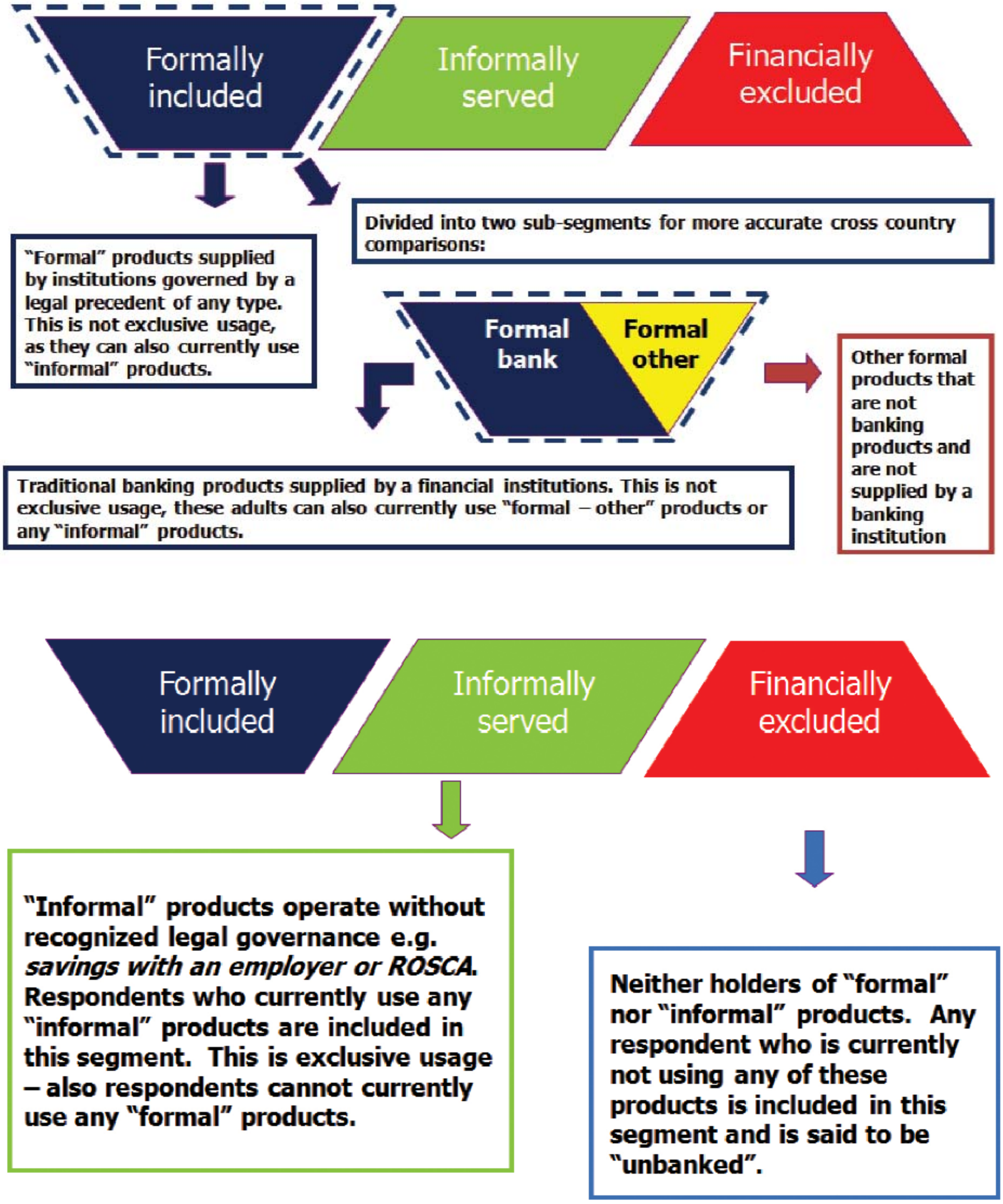
Other formal financial services cover a very broad range of services, including microfinance from non-bank providers (usually in the form of associations, foundations, NGOs and projects), savings and credit cooperatives[19], insurance companies, pension funds, money transfer agencies, government funds, etc. With the exception of savings and credit cooperatives and pension funds, these service providers are prohibited from offering savings or money safeguarding products. Some segments of the population are, in fact, legally obliged to use insurance companies for compulsory vehicle third-party coverage and salaried workers with contracts are required to deposit a percentage of their salaries with the state-operated pension fund INSS. Insurance services are covered separately in chapter 12. Only 3.6% of the adult population access other formal financial services.

***Informal Financial Services***

Tradition, combined with real or perceived inaccessibility of formal financial services make informal services attractive. People prefer to risk placing their money with legally unaccountable intermediaries rather than regulated institutions. Organized groups providing informal financial services offering safekeeping, savings, credit and insurance facilities are discussed in chapter 13 whereas the variety of informal money transfer mechanisms are discussed under remittances (chapter 9). The informal sector serves the largest proportion of the adult population (14.7%).

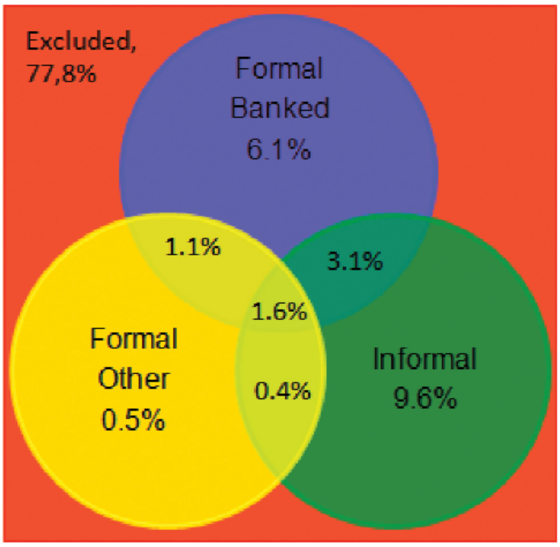
[19] One savings and credit cooperative was considered to a formal bank because it is awaiting approval to be a registered commercial bank and for all intents and purposes offers banking products and services.

Figure 4 – The financial access strand



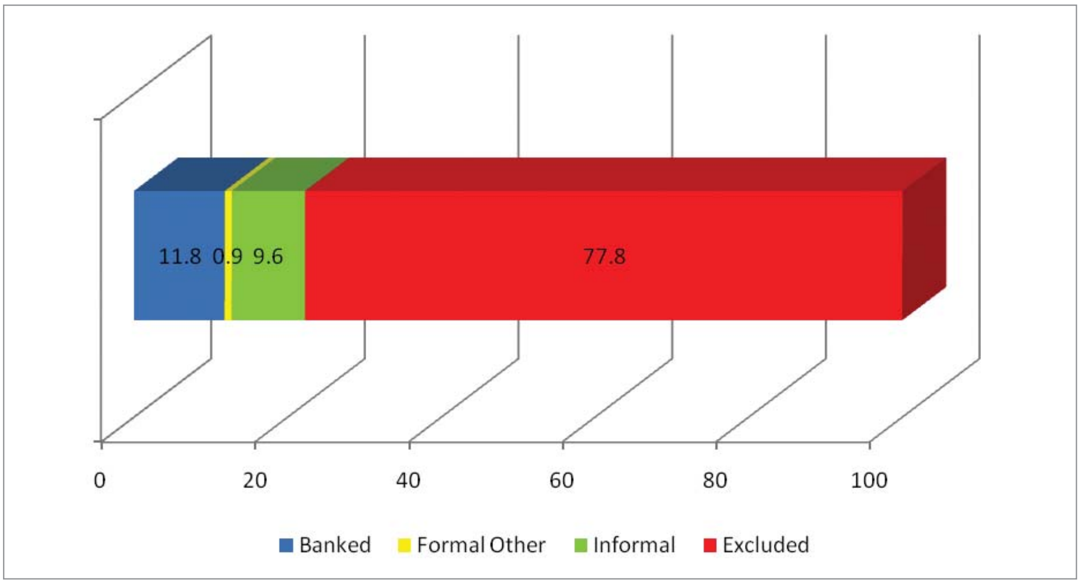
Graph 6 shows that there is a significant overlap between the components of the access strand. For example, it is very common that urban salaried workers are members of *xitique* groups (rotating savings groups) of which some might have cars which have to be insured and therefore having to use other formal (non-bank) financial service providers, thus accounting for the 1.6% of the adult population using all three service providers.

### Graph 6 – Financial Access Strand Overlap



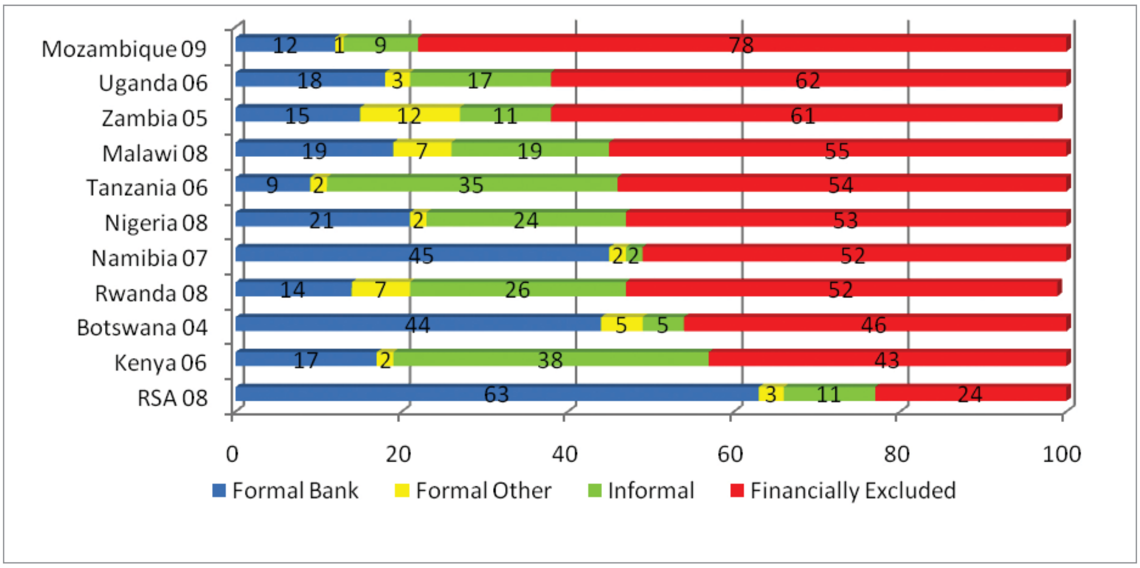

Graph 7 presents the financial access strand, showing that only 22.2% of the adult population is financially included i.e. having access to at least one of the financial services provided by any of the three alternative categories. More than three quarters (77.8%) are deemed to be financially excluded although this might include those members of the population who have had previous access e.g. the 2.2% of the adult population who previously had bank accounts.

### Graph 7 – Financial Access Strand



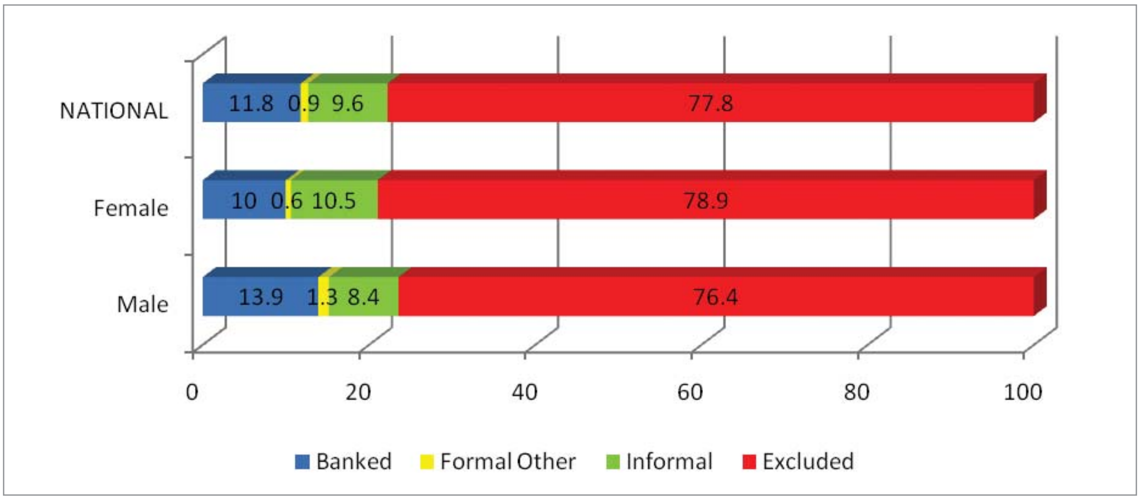
Graph 8 shows that, of the 10 African countries where FinScope surveys have been conducted, Mozambique has the highest percentage of excluded adults. The situation is only marginally better if looked at in terms of the percentage of those formally banked, where only Tanzania in 2006 had a lower percentage of formally banked adults (9%). Noteworthy of Mozambique's FAS is the relatively low use of informal financial service provision and other formal financial services.

### Graph 8 – Financial Access Strand – Country Comparison



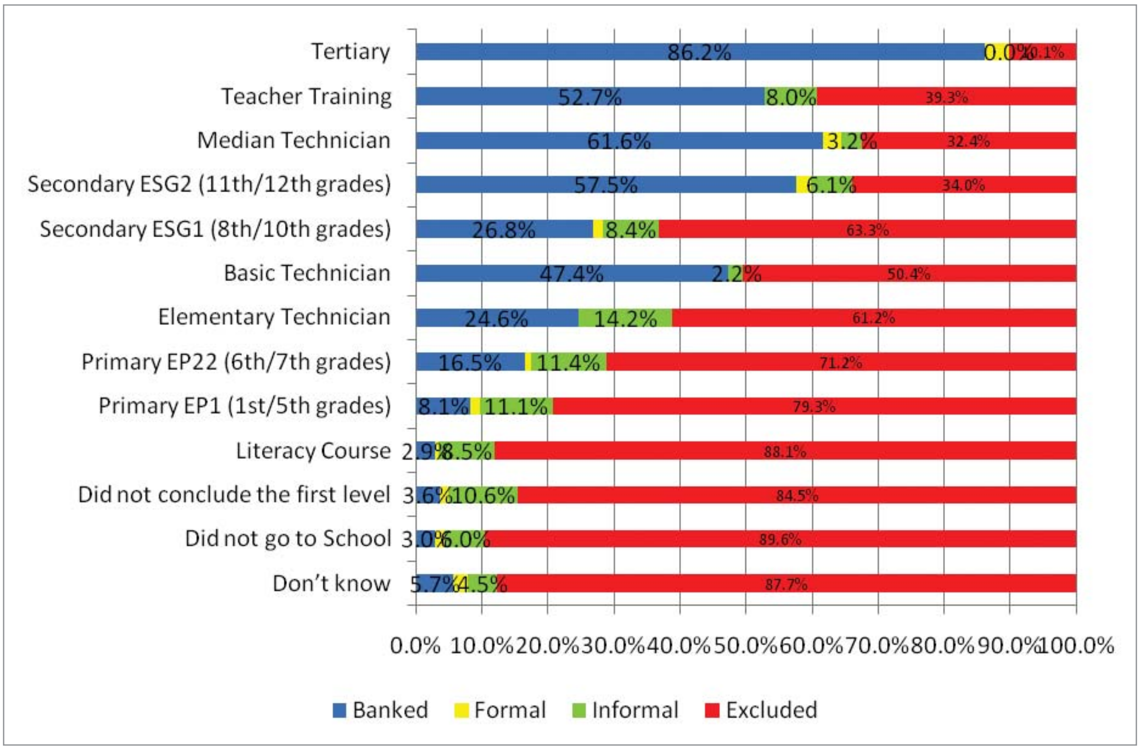

Graph 9 shows that, although men are more financially included than women, the difference is not significant (2.5%).

### Graph 9 – Financial Access Strand by Gender

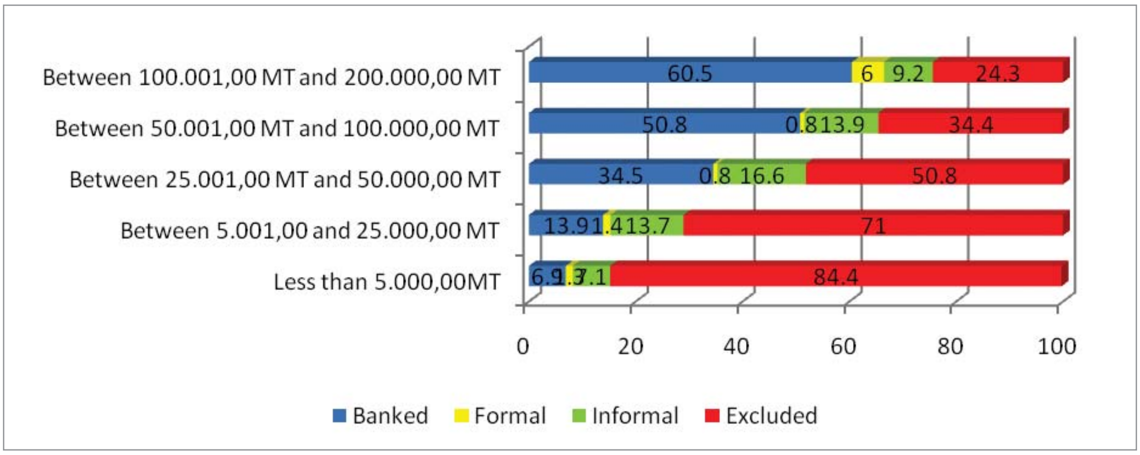


Graph 10 and Graph 11 not surprisingly show a very close positive relationship to the proportion of those formally banked with the levels of education and income.

### Graph 10 – FAS by Education

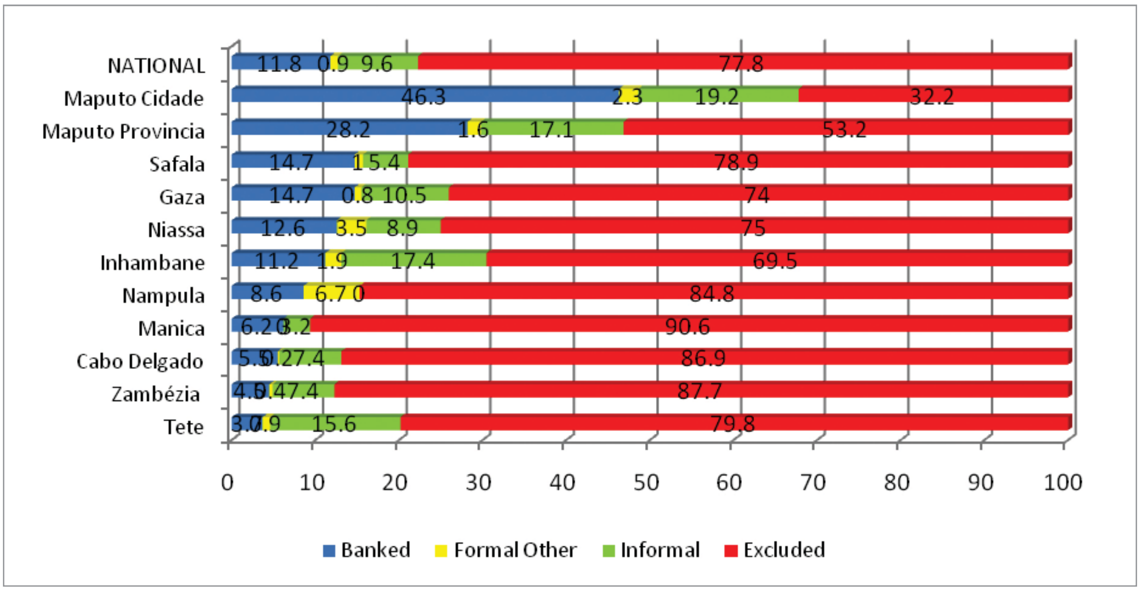



### Graph 11 – FAS by Income (annual)



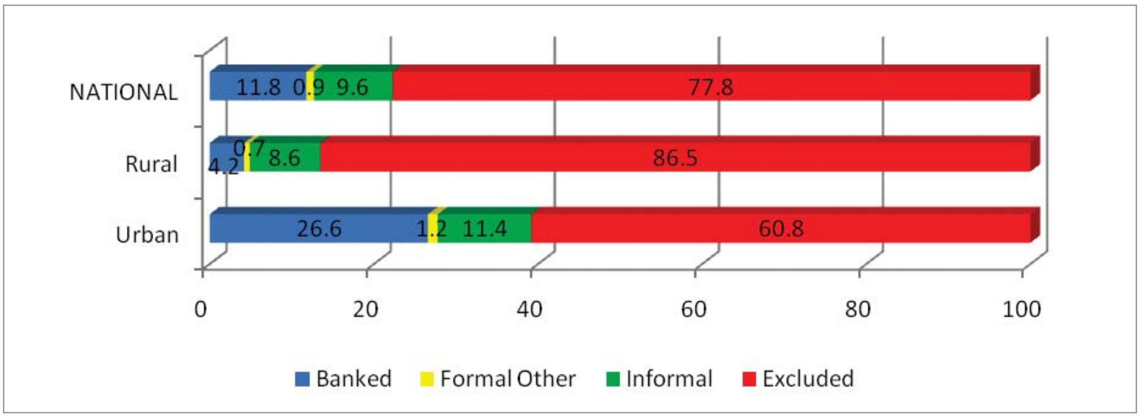
As expected, Graph 12 shows that the provincial distribution of proportions of those formally banked closely correlates with the density of bank branches by population and districts (see Figure 2). The only apparent anomaly being Niassa, but its relatively high percentage of formally banked adults is at least partly explained by the province's small population and that almost 50 per cent of its population lives close to Lichinga and/or Cuamba where the banks are situated, complemented by the fact that most of the population lives near the main roads.

### Graph 12 – FAS by Province



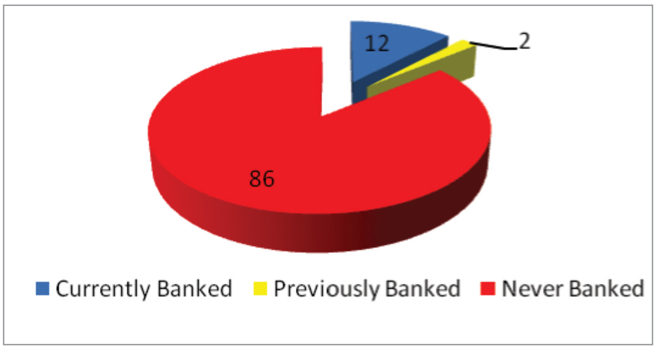

Graph 13 drives home the stark reality of the economic marginalization of Mozambique's rural population and demonstrates the urgency of the government's *bancarização* campaign. An overwhelming 86.5% of rural adults are financially excluded while a disturbingly low 4.2% use banking services. In contrast, 60.8% of urban adults are excluded and 26.6% are formally banked.

### Graph 13 – FAS by Area

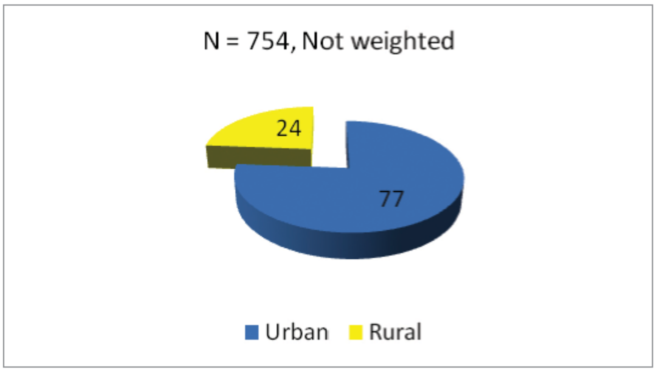


# 8. Formal Banking Products & Services

### Graph 14 – Banking Current Situation




### Graph 15 – Currently Banked by Area




***Use patterns***

People considered to be "banked" are those who are have / use banking products or services i.e. they have a bank account or they use bank services (not necessarily theirs), have a contract with a bank such as a loan, as well as those who use banks to conduct a service such transfer money or exchange currency. 11.8% of the total adult population (1,352,463) are considered currently banked, almost all of whom are likely to have a bank account (a very small percentage use banks for transactions purposes such as transferring money without being a client). Of the currently banked it is estimated that about 20% have accounts or access to accounts outside of Mozambique (see below). This figure is consistent with the number of accounts held with the five largest Mozambican banks (1,483,440, June 2009), given that many clients have more than one account and that many accounts are in the name of companies and institutions, etc.[20] A significant 2% of the adult population previously had a bank account but no longer have one.[21]

[20] Information obtained from commercial banks showed that most banks require savings accounts and term account holders to have current accounts in which to deposit interest income.

[21] This may be partly explained by the closure of a wide network of rural branches by the state-owned bank BPD following its privatization in 1997.

Table 11 presents the proportion of the formally banked population using the various banking products and services made available by the banks.

### Table 11 – Use of Banking Products and Services

| Product | % of formally banked |
|---|---|
| Current account | 38.7 |
| Term deposit | 6.2 |
| Savings account | 30.2 |
| Savings Plan | 4.6 |
| Salary account | 20.3 |
| Loan Account | 5.1 |
| Debit card | 28.5 |
| Credit Card | 8.5 |
| Cheque book | 7.0 |
| Overdraft facility | 2.3 |
| Loan for < 1 year | 1.4 |
| Loan for > 1 year | 2.2 |
| Consumer Credit | 0.8 |
| Business Loan | 1.8 |
| Housing Loan | 0.3 |
| Agriculture Loan | 0.3 |
| Immovable Leasing | 0.3 |
| Car or movable leasing | 0.2 |
| Bank check | 1.1 |
| Standing order (payment of services) | 1.0 |
| Direct order | 1.5 |
| **Services used (during last 6 months)** | |
| Deposited cash into a bank account | 71.3 |
| Withdrew cash from a bank account | 78.1 Direct from bank 36.1% From ATM 79.2% |
| Paid people / companies by cheque | 6.7 |
| Used POS or ATM to pay bills | 11.0 |
| Made a payment / transference through Internet Banking | 1.8 |
| Made a payment / transference through Cellphone Banking (sms) | 2.4 |
| Cashed a cheque | 10.2 |
| Deposited a cheque | 6.1 |
| Bought airtime through an ATM | 13.1 |
| Made credit card purchases | 6.6 |
| Requested a statement of your account(s) | 14.8 |
| Exchanged money | 6.6 |
| Transferred money to someone (in last 12 months) | 26.6 |
| Received transfers (in last 12 months) | 31.1 |

The dominant types of accounts are current, savings and salary accounts, while more than a quarter of the banked possess debit cards. A large majority of the banked population have made deposits and withdrawals during the past six months (most withdrawals being made through ATMs). Relatively small percentages use credit cards or cheque books. A significant proportion of the banked population send or receive transfers through the banks (only 2.1% of those sending and 1.5% of those receiving through banks do not have their own bank accounts).

Apart from the use of credit cards, very few clients have used banks to obtain loans. In recent years banks have been promoting consumer and housing lending, especially to salaried clients, but so far the impact remains quite small. The take up of business loans is also very small.

Of those who own cellphones, 2.7% use their cellphones to send money or make payments (30.3% of adults stated that they would use their cellphones to send money if they could) and 0.7% use their cellphones to check their bank balances.

Demonstrating the growing impact of microfinance providers, 6.2% of those who currently have bank accounts were with commercial microfinance banks or *microbancos*, two commercial banks accounted for 79.4% of the current account holders. Importantly, the data showed that microfinance banks and *microbancos* accounted for 62.5% of the loans with terms of less than a year and 70.5% of the agricultural loans.

Table 12 shows that a significant 1.6% of the adult population hold a bank account outside of Mozambique and that a further 0.8% have access to someone's bank account outside of Mozambique. Almost half the number those who have their own accounts have access to another person's account. A relatively small number have joint accounts. 86% of account holders have their accounts in one bank and 12.5% in 2 banks, while the rest have accounts in 3 or more banks.

### Table 12 – Percentage of adult population with bank accounts by location and ownership

| Account by ownership/location | Percentage |
|---|---|
| Only in Mozambique in name of the adult | 7.3 |
| Only outside of Mozambique in name of the adult | 1.6 |
| Has access to another person's account (Mozambique) | 3.4 |
| Has access to another person's account (Outside) | 0.8 |
| Has shared account (Mozambique) | 0.6 |
| Has shared account (outside) | 0 |

***Reasons for having a bank account***

The main reasons for having an account with a bank related to safety or security and the ability to save/accumulate. Reflecting a greater awareness of the advantages of banking services and the exigencies of modern life, more than a third (37.9%) of the adult urban population disagreed with the statement "You can easily live your life without a bank account" vs. only 15.6% of the rural adults.

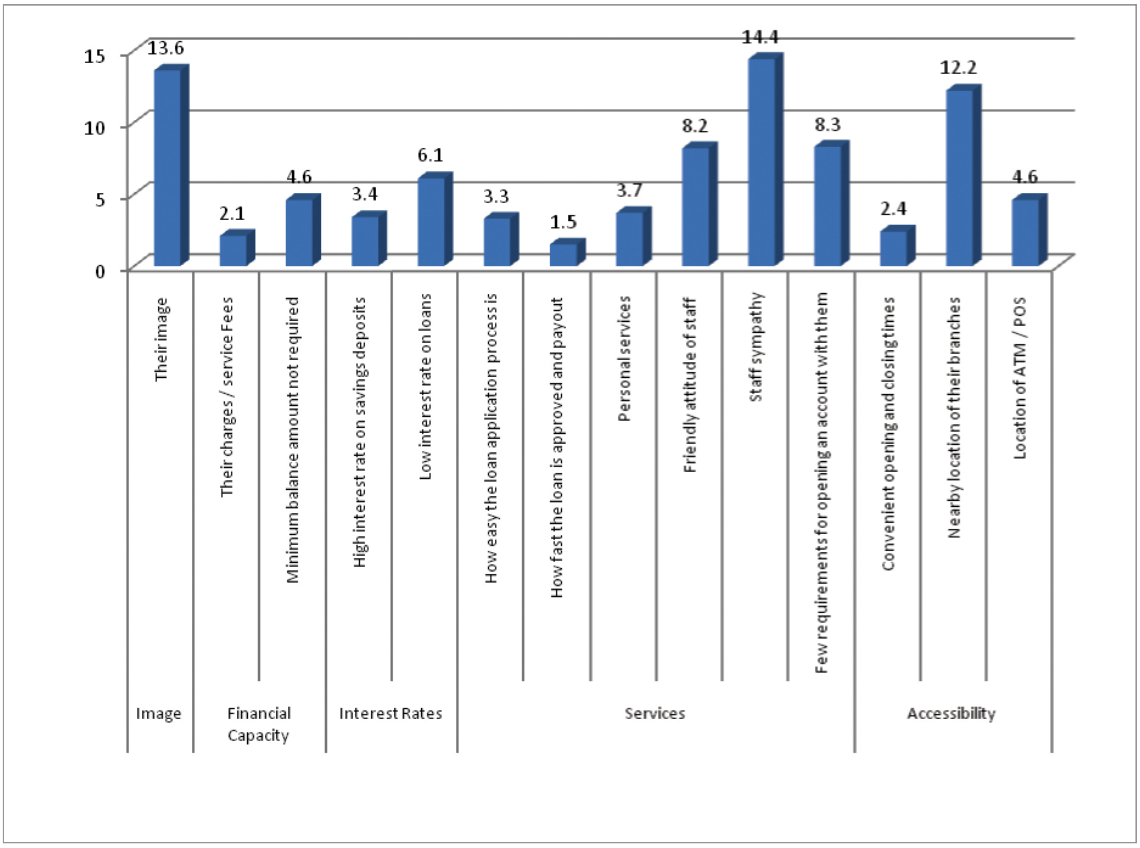
Table 13 shows that the overwhelming reason for having an account relates to the safekeeping of the money, followed by the opportunity to save/accumulate money. Transaction motives (paying accounts and transfers) were of lesser importance. Obtaining an account for the purposes of obtaining a loan was mentioned by very few. 7.3% of adults stated that they were required by their employers to open an account (presumably for receiving salaries).

### Table 13 – Reasons for having bank account

| Reasons | % of those currently or formerly banked |
|---|---|
| To keep money safe | 53.2 |
| To save and accumulate money | 24.7 |
| To pay accounts and expenses | 10.1 |
| To transfer and/or receive money | 9.2 |
| Required by my employer | 7.3 |
| To get debit card | 5.5 |
| To get access to credit | 2.6 |

Graph 16 shows that the bank's image was the most important factor in selecting a bank, followed by aspects relating to service quality and the accessibility. Other important issues included requirements to open an account and interest rates.

### Graph 16 – Factors influencing the choice of bank



***Barriers to banking***

Table 14 has attempted to group the various reasons for not opening a bank account within 5 themes. The vast majority of the adult population appear either not to want an account because it is unsuitable for their needs. They are of the perception that they do not have enough money to afford an account. Unfortunately this response code is ambiguous as it is not clear from this whether the adult feels that he/she does not have enough money to open an account or to *maintain* an account. Until recently, minimum balances for many of the conventional banks were relatively high so there could well be a prevailing misconception that such high barriers remain. On the other hand, the majority of the poor would see little use for an account as there is never (or rarely) an opportunity when cash can be diverted from their quotidian struggle to survive. In addition to the unknown number who feel that they cannot open up an account, there are a small percentage of people who have other misconceptions relating to requirements or who simply do not trust banks. Access is a main issue for a significant number who live far away from banks or cannot afford the transport. Other issues of access include lack of documents and inconvenient hours. Illiteracy, not understanding the financial language used by banks, or how they work at all also plays a major role as barrier for banking. Lastly Intimidation about approaching banks is also an important barrier for a small but significant minority.

### Table 14 – Reasons for Not having a bank account

| Category | Specific Reason | Percentage |
|---|---|---|
| Unsuitability / affordability | Does not have enough money to afford account | 78.7 |
| | Does not understand benefits from having an account with them | 2.4 |
| | Do not want it | 1.4 |
| | Do not need it | 2.1 |
| | The do not provide services needed | 0.4 |
| | Cannot maintain the minimum balance | 3.9 |
| | Bank fees are too high | 0.6 |
| Perceptions | Need permission of someone else to open it | 2.0 |
| | Their accounts are not for people like 'me' | 5.3 |
| | Does not trust these institutions | 0.6 |
| Access Issues | It is too far away | 15.2 |
| | Transport too expensive | 4.5 |
| | Their hours are not convenient | 0.5 |
| | Don't have appropriate documents | 1.6 |
| | Agency where had account closed | 0.8 |
| Illiteracy | Does not understand how banks work | 7.9 |
| Intimidation | Does not know how to apply | 2.8 |
| | Does not understand the financial language used | 2.0 |
| | Fear of embarrassment or refusal | 0.4 |
| Other | None | 0.0 |

***Perceptions and attitudes towards banks and their services***

Chapter 6 demonstrated that a very large proportion (41.4%) of the adult population had either never heard of a bank (22.5%) or had heard about them but did not know what it was (18.9%). Considerably larger percentages did not know what some of the more basic products and services of banks were.

The questionnaire, nevertheless attempted to get the adult population perceptions about whether certain statements could be associated with different types of financial service providers. Although most of them were unable to make these associations, enough (about 10%) responded in relation to banks to make some meaningful generalizations. Table 15 presents a ranked order of adult concurrence with statements that were read out.

### Table 15 – Perceptions of banks

| Statement associated with bank (rank refers to the extent that adults agreed) | Rank |
|---|---|
| They can be trusted | 1 |
| They treat you with respect | 2 |
| Getting things done with them is easy | 3 |
| The queues are long/ you have to wait a long time to be served | 4 |
| They operate at times that are convenient to you | 5 |
| They are your ideal place to go | 6 |
| It is quick to get service | 7 |
| They take your property if you do not pay your loan | 8 |
| Dealing with them gives you status in the community | 9 |
| They are for rich people and not for poor people | 10 |
| The charges are reasonable | 11 |
| It is quick for them to give you a loan | 12 |
| They use words that you do understand | 13 |
| The process for getting a loan is easy | 14 |
| The interest rate on a loan is reasonable | 15 |
| The interest rate on a loan is very high | 16 |
| They lend too easily and get you into problems | 17 |
| They are understanding when you cannot make your payments | 18 |
| The information that they give you is difficult to understand | 19 |

Table 16 compiles a selection of statements relating to habits or issues that are considered to be relevant to banking practices. Perhaps most significant is that almost a quarter did not agree with the assertion that they could easily live without a bank account. Even though only about 12% used banking services in one way or another, this suggests that a significant part of the population is aware of the advantages that bank accounts offer them. There also appears to be an inherent distrust for payment other than in cash, although the impact of debit cards is obvious in relation to whether adults preferred to carry cash rather than a card and a significant minority are more comfortable in dealing with machines than people (supported by the fact that the majority withdraw money from ATMs rather than from inside the bank). Although many appear to be able to trust banks to handle their money matters, the majority remain wary. More than a third of the adults would be happy to use more technology in their money affairs.

### Table 16 – Attitudes on issues relevant to banks

| Statement | Agree | Disagree | Don't Know |
|---|---|---|---|
| You can easily live your life without a bank account | 57.1 | 23.0 | 19.9 |
| When it comes to money you do not trust the advice of others | 42.6 | 49.6 | 7.7 |
| You would rather deal with people face to face than use machines such as ATM's | 30.5 | 16.8 | 52.7 |
| You would like to use your cellphone to transfer money if you could | 30.3 | 20.8 | 48.9 |
| You prefer to be paid in cash than any other means | 71.1 | 15.4 | 13.5 |
| You feel that is it morally incorrect that interest be charged on loans | 20.1[22] | 34.8 | 45.1 |
| You prefer to carry cash than using a debit card | 31.0 | 22.9 | 46.1 |
| It is okay to get goods or services on credit | 24.3 | 25.2 | 50.6 |
| It is not safe to carry cash | 57.1 | 35.3 | 7.6 |
| It is not safe to keep cash in your dwelling | 42.6 | 44.7 | 12.7 |
| It is hard to borrow money from banks and financial institutions | 23.4 | 13.2 | 63.4 |
| You worry about planning for money for your old age | 46.4 | 43.5 | 10.1 |
| You store some or all of your money with someone else so that they can keep it safe or guard it for you | 15.4 | 72.7 | 11.8 |
| If you could you would use more technology to help you manage your money | 36.0 | 20.8 | 43.2 |
| You feel you are in control of your money matters | 47.2 | 27.4 | 25.4 |
| You sometimes have to sign documents about your money matters that you do not understand | 8.2 | 74.2 | 17.6 |
| You prefer to give your money and related matters to a bank or other financial service provider and have them manage your money for you | 21.4 | 53.9 | 24.7 |
| You prefer to manage your money matters yourself and not to give it to a Financial Service Provider to do for you | 46.3 | 33.8 | 20.0 |

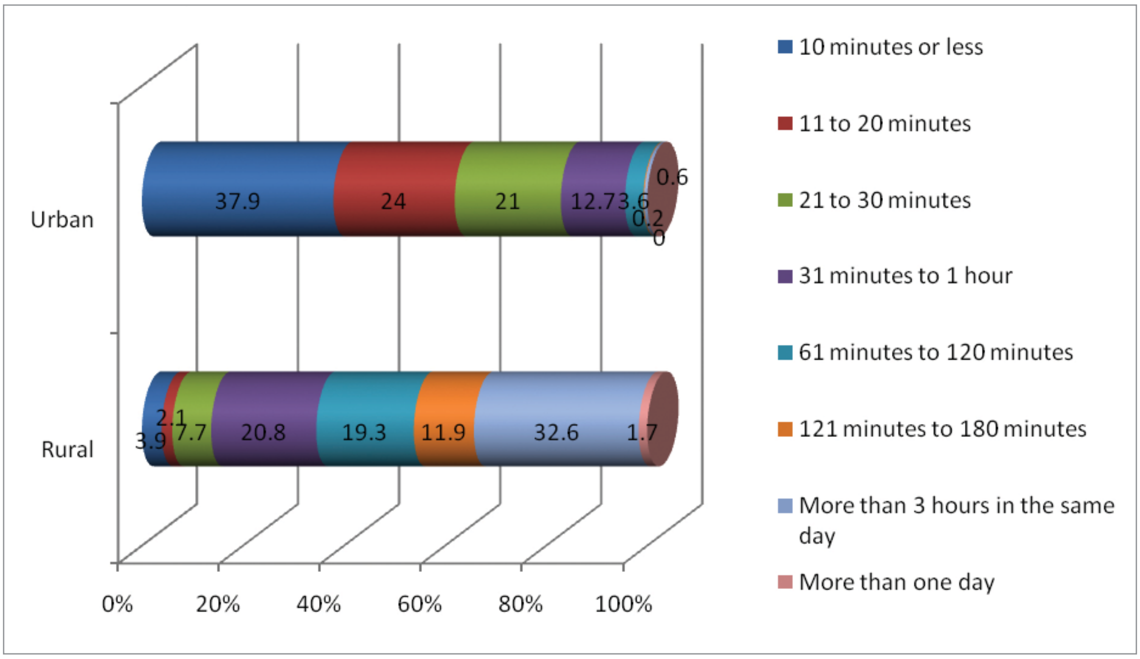
#### *Location and access*

Almost half (49%) of those using the services of banks or other formal institutions walk to them, while more than a quarter (28.6%) use some form of public transport. 10.6% use a motorized form of transport owned by them or someone from their household and 7.7% use a form of non-motorized transport (mainly bicycles).

[22] Given Sharia law objections to usury and the charging of interest, we believed that there would be proportionately more Muslim adults agreeing with this statement than Christian. In fact the opposite was found.

Graph 17 shows the approximate time to get their bank or formal institution and clearly demonstrates the significant differences in physical access to rural and urban facilities. One third (34.3%) of the adult rural population live at least three hours away from their bank or formal financial institution. Given the fact that 85.6% of the rural adult population are excluded from financial services, one can assume that a considerably higher proportion of the overall rural population is at least three hours away from the closest formal financial service provider.

### Graph 17 – Rural/urban Access to Financial Institutions




## 9. Remittances

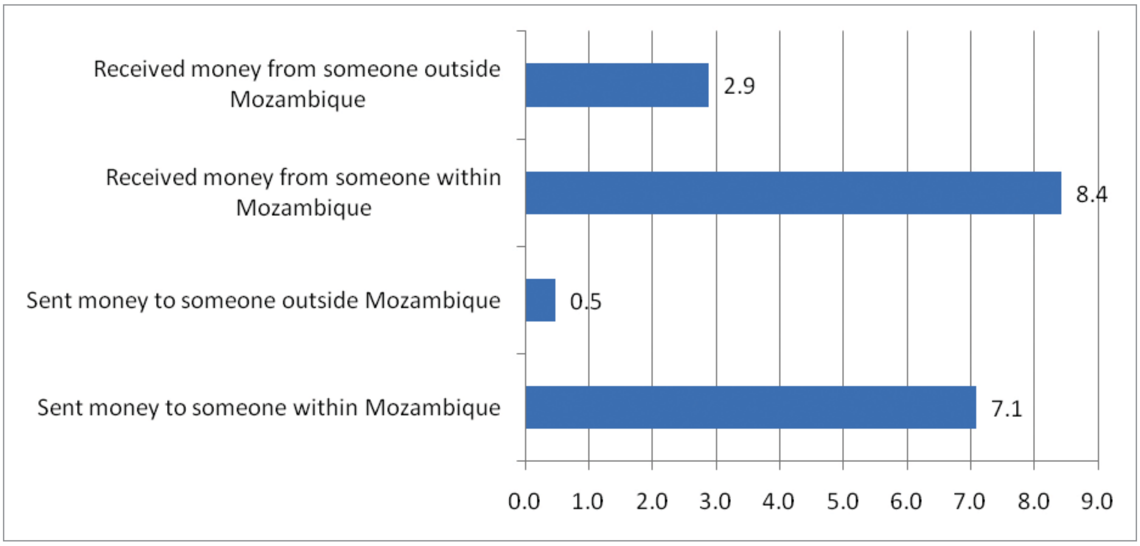
Mozambique has been exporting migrant labour to neighbouring countries, especially South Africa for well more than a century.[23] Urban-centered economic growth has also led to significant rural-urban migration. Consequently, it was assumed that there would be a tendency for the working members of the households to send money to their spouses or to their dependents who, in most cases, live in rural areas. Historically, southern Mozambique south of the River Save has been an migrant-labour exporting region and studies have shown that despite poor agricultural conditions, rural households of southern Mozambique have become considerably wealthier than rural households north of the River Save largely due to the labour migration.[24]

[23] The 2007 IFAD study *Sending money home: Worldwide remittance flows to developing countries* estimated that Mozambican migrant workers sent 565 million US dollars back to Mozambique. This figure represents 7.4 per cent of the country's GDP.

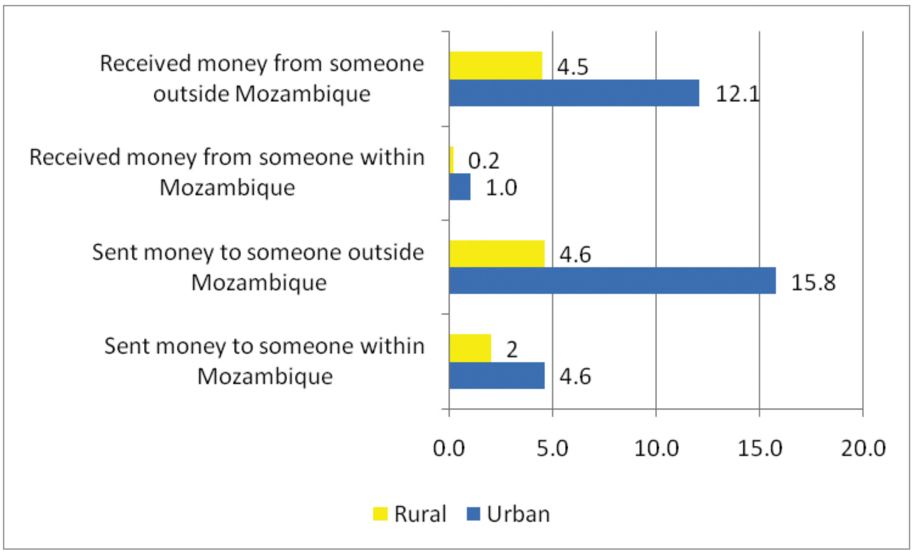
[24] See Fion de Vletter, 2007. *Migration and development in Mozambique: poverty, inequality and survival* Development Southern Africa Number Volume 24, Number 1, March 2007.

Graph 18 shows that 2.9% of adults receive remittances from someone outside the country. Only 0.5% of households send money to someone outside of the country. A significant 8.4% of the adult population receives money from someone in the country and logically it was found that a similar figure (7.1%) of the adults were found to be sending money to someone in Mozambique. Graph 19 shows, somewhat surprisingly, that most of the recipients of externally sourced remittances were urban and the circulation of money being sent between Mozambican recipients is mainly within urban areas. Graph 20 shows that more than half of the transfers are mainly done through a family member or friend, however, an impressive 42.9% of those transferring money do so through banks. As can be expected almost two-thirds of the rural recipients obtain their money through friends or family vs. less than half (46.7%) of the urban recipients. Less than a fifth of the rural recipients obtain their remittances through a bank while almost half (46.5%) of the urban recipients do. A weakness of the FinScope questionnaire is that the purposes of the transfers were not made clear and it could well be that a significant part of these urban to urban transfers were business related and not remittances to household members.

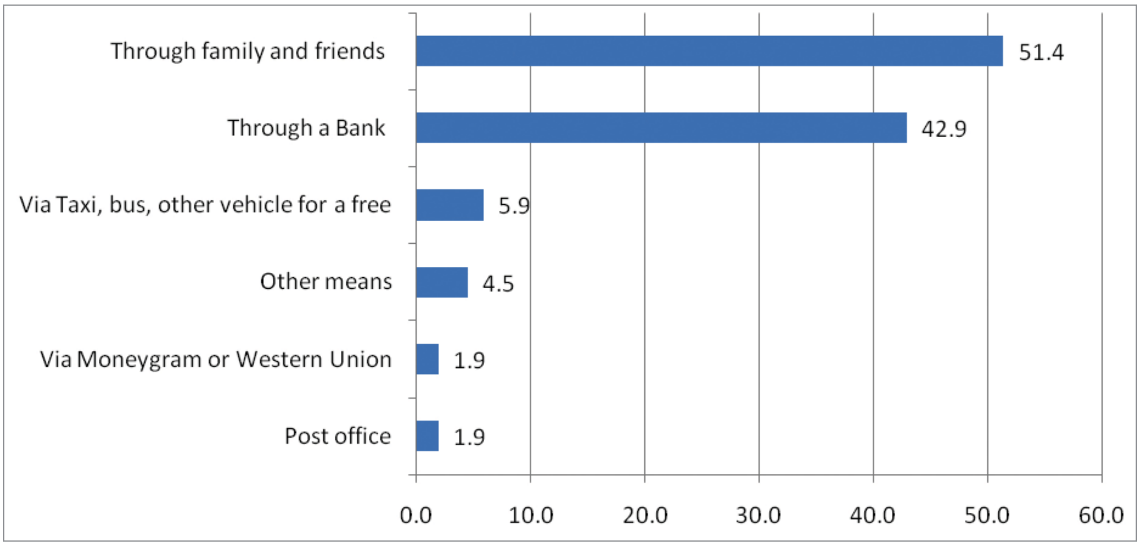
### Graph 18 – Remittances




### Graph 19 – Remittances by Area



### Graph 20 – Remittances – Sending Channels




## 10. Savings

"Savings" for the purposes of this study refers to money or a store of value that is set aside for paying for something other than normal expenditures or transactions. It should therefore not be confused with the service of "safeguarding" money which is one aspect of savings but applies to *any* money kept in a bank or other financial institution. Significantly, it excludes cash that is kept aside for anticipated expenses or money kept in current or salary accounts. The interpretation of why money is kept at home may account for significant variation on savings levels when compared to other FinScope studies.[25]

Savings products in banks include savings accounts, deposit accounts and savings plans. Savings products in other financial institutions are essentially limited to deposits with savings and credit cooperatives as other formal financial institutions are prohibited by financial legislation from accepting deposits. Informal savings are usually done through a variety of groups (see chapter 13 for a more detailed discussion) but leaving money in the care or an employer or another person also accounts for a high proportion of informal savings.[26] Finally, savings can be done at home but, as mentioned above, these funds did not include cash that has been put aside to be used for day to day expenses such as remittances sent for household maintenance.

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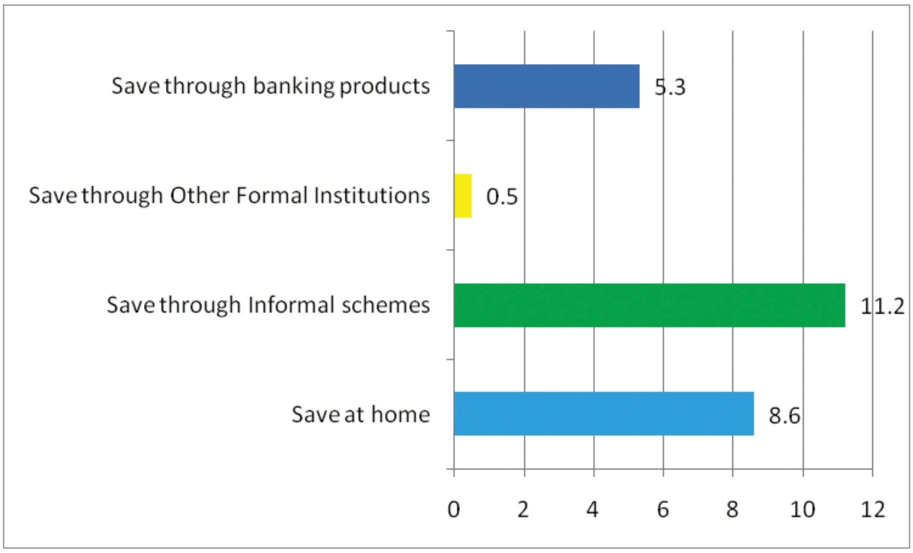
25 Results for Malawi (2008), for example, found that 74% of adults save, most of whom saved at home. It is unlikely that in reality the behaviour of households between the two neighbouring and similarly poor countries would be so significantly different and is probably explained by how the question on savings was interpreted.

26 Almost a fifth (19.5%) of the adults agreed with the statement that "You store some or all of your money with someone else so that they can keep it safe or guard it for you" while 13.4% of the rural adults did.

Graph 21 presents the total percentages of adults using the different financial service categories as well as the home. Only 5.3% of the adult population save through banks and 0.5% save through other formal institutions. Most savings are channelled through informal schemes (11.2%) while 8.6% is saved at home (not included in the financial access strand).

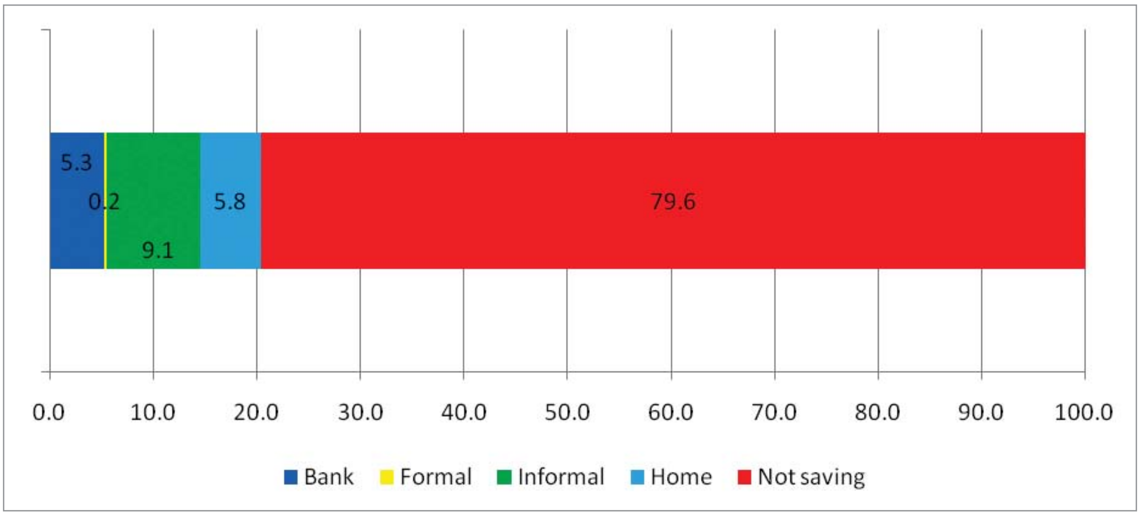
### Graph 21 – Forms of Saving




Adults who are saving often have more than one savings product/mechanism resulting in a net percentage of 20.4% actually having a savings product/mechanism (Graph 22).

The saving strand works on the same basis as the access strand. The FinScope Survey uses the Saving Strand to compare utilization of savings products across countries. It focuses on the savings products of a country in its broadest sense and assumes that all adults in the country will fall into one of five hierarchical segments: (i) saving through the use of banking products (but could also save through the use of other

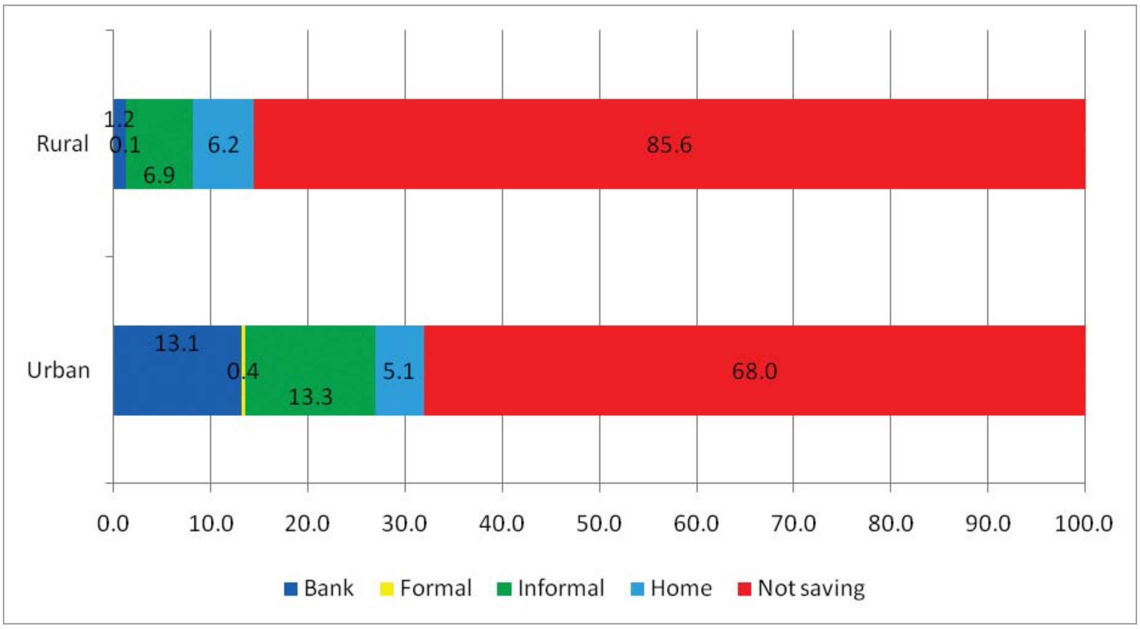
### Graph 22 – Savings strand



mechanisms); (ii) saving through the use of products provided by other formal financial institutions but are not using commercial banks products for the purpose of saving (could also use other saving mechanisms such as informal products); (iii) saving through the use of informal products such as a savings club; (iv) saving at home/in a secret hiding place only; or, (v) not saving at all.

Interestingly, Graph 23 demonstrates that the percentage of rural savers is considerably lower than urban, not only in aggregate but also for each of the savings categories. Particularly noteworthy is the much higher percentage of savers with informal products in urban areas. Graph 22 shows the savings strand, indicating that only 20.4% of the adult population save either through financial service providers or at home. However, with the rapid growth of rural community based savings and credit groups (see chapter 13), this may well change in the near future.

### Graph 23 – Savings strand by area

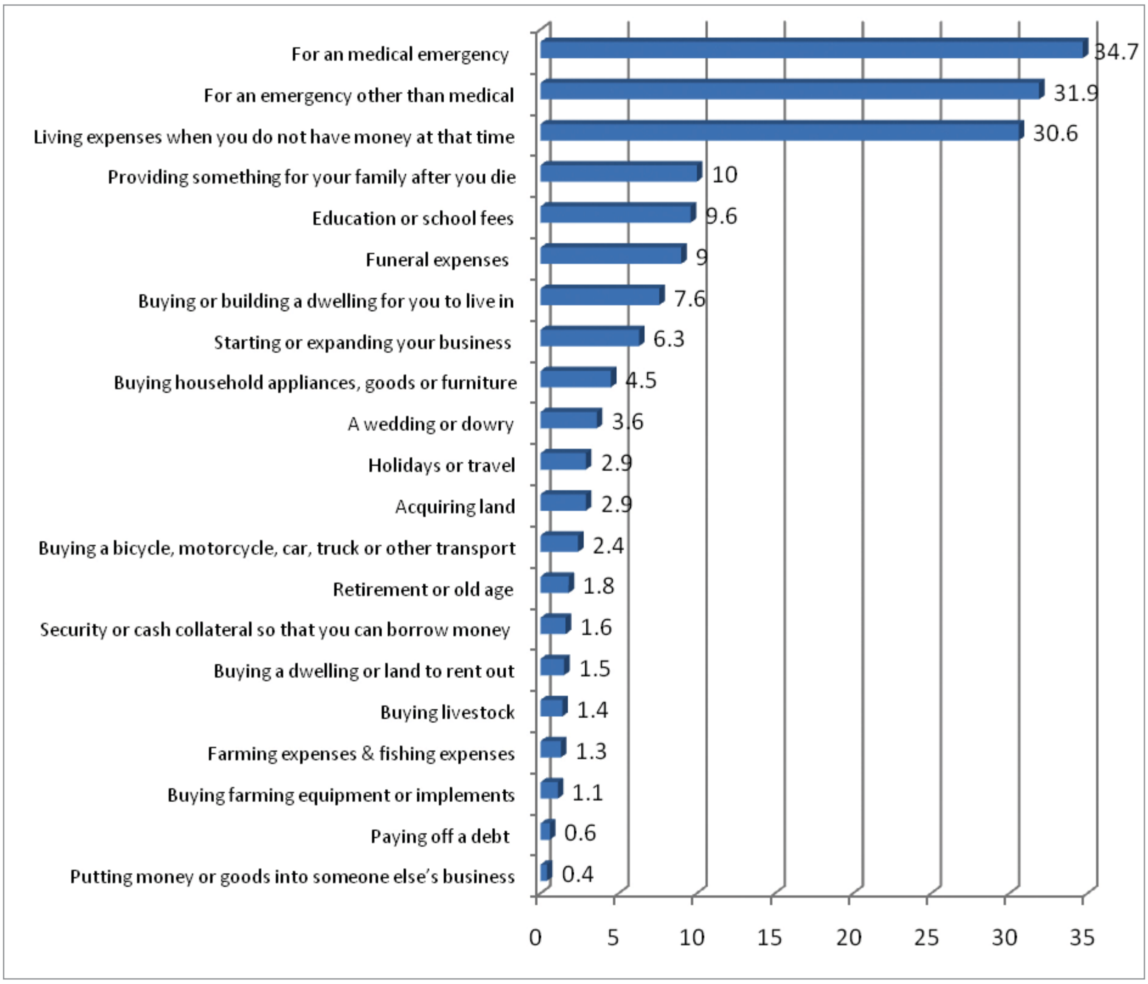



Although the vast majority (79.6%) of the adult population did not have savings at the time of the survey, responses to attitudinal questions suggest a strong desire to save.

Approximately two-thirds of urban population said that they try to save regularly vs. just over half the rural (52.4%), probably reflecting the differences in wealth levels. On the other hand, approximately two-thirds of both urban (64.1%) and rural (67.6%) disagreed with the statement "*At times you prefer to go without basic things in order to be able to save*". Given the fact that a small minority actually manage to save, one can assume that absolute poverty and low levels of income are the principal constraints to more people saving, as reflected by the lower proportion of savers in rural areas across all the savings categories.

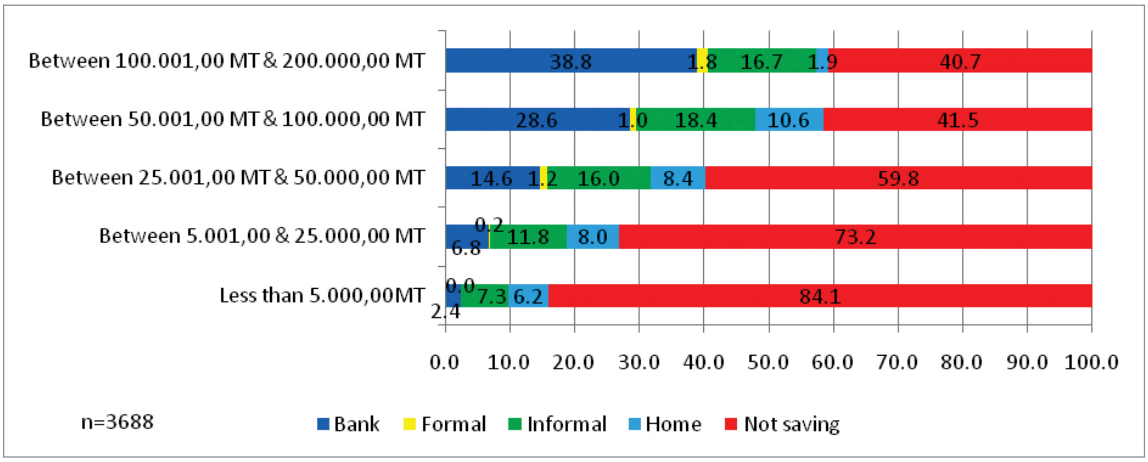
Significantly, Graph 24 demonstrates that the three most important reasons for savings relate to preparedness for emergencies (medical, non-medical and the possibility of being without money for normal household expenses). Another major reason for savings (29.1%) is to increase the income derived from business. For many, especially those living in Maputo such savings will be done on a monthly basis (e.g. informal compulsory daily deposits known as *xitique geral*) for working capital, but some savers will be using their money for capital investments to expand their businesses.

## Graph 24 – Reasons for saving



Graph 25 shows that the proportion of adults saving increases with the level of income and that the proportion of those saving in banks increases while the percentage of those saving with informal and informal service providers decreases.

### Graph 25 – Saving Strand by Income




## 11. Credit

In contrast to savings which the large majority of the adult population sees as something to strive for but largely constrained by the lack of resources, 83.1% agree with the statement "You avoid borrowing money if you can" (15% disagreed). 30.9% of urban adults agreed with the statement "*It is okay to get goods or services on credit*" vs. 20.9% rural.

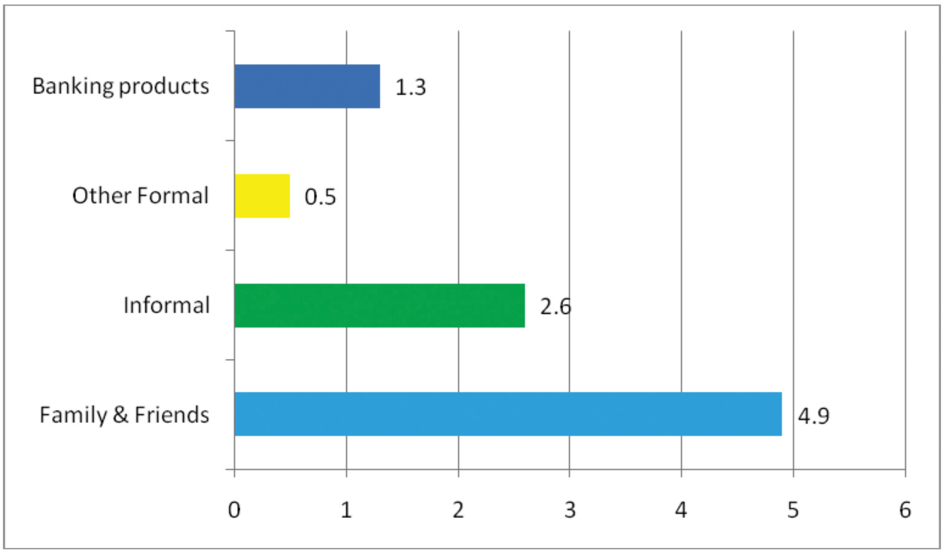
The FinScope Survey uses the Credit Strand to compare utilization of credit/loan products across countries. The Credit Strand focuses on the credit/loan products of a country in its broadest sense and assumes all adults in the country will fall into one of five hierarchical segments: (i) borrowing from a bank (could also borrow from other sources); (ii) borrowing from other formal financial institutions but commercial banks (could also be borrowing from informal money lenders or friends and family); (iii) borrowing from informal money lenders but not from formal sources (could also be borrowing from family and friends); (iv) borrowing from family and friends only; or (v) not borrowing at all.

Credit is available from banks, other formal institutions and through informal arrangements (all components of the financial access strand). However, the credit strand, as in the case of the savings strand, also includes a category not included in the financial access strand i.e. loans provided by family and friends. A variety of socio-economic studies have shown that, other than personal savings, the main source of funding for investments, especially activities in the informal sector has been family and friends. However, the results of this study strongly suggest that many adults did not perceive money provided by family and friends as *loans*. Interestingly, the adults with higher levels of income tend to have considerably higher tendencies to borrow from family and friends (see Graph 29). It is very likely that poorer people are getting financial assistance from family and friends but whether or not such assistance is considered a loan is not clear. Assistance that is in fact considered a loan from family and friends rarely involves interest. Chapter 6 demonstrated that when facing calamities or when financing an anticipated important event the main source of financial assistance came from relatives and friends.

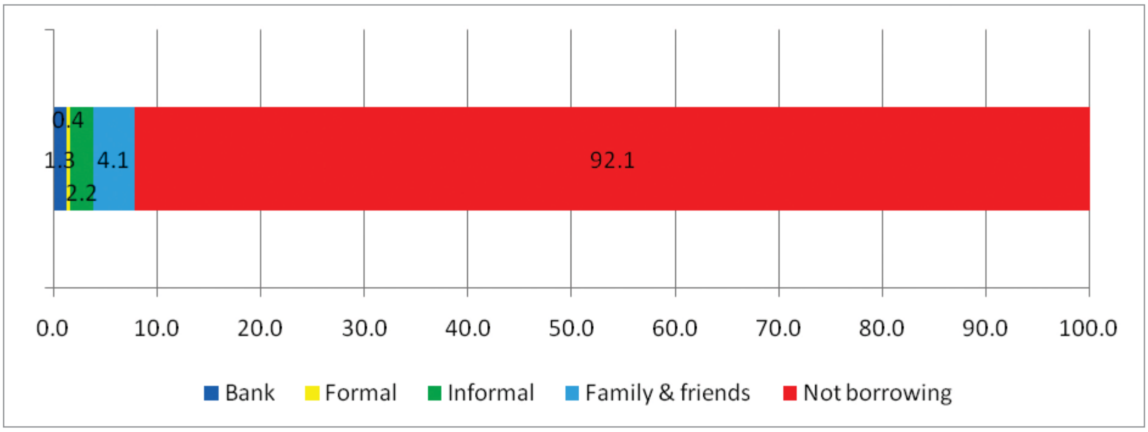
Lending from the banking system has been very difficult to obtain especially since the privatization of state-owned banks, largely due to the very large amount of bank deposits used to purchase high-yielding treasury bills. In recent years however, banks have become much more open to consumer lending (usually offered to clients with salary or other guaranteed income), leases and mortgages. Apart from credit from the four commercial banks specializing in microcredit, lending to micro, small and medium enterprises remains according to the 2009 Investment Climate Assessment the second most important constraint to enterprise development. Despite recent changes, Graph 26 shows only 1.3% of the adults had loans from banks and another 0.5% from other formal financial institutions.[27] A considerably higher proportion, but still a small 2.8% obtained loans by informal means, while 4.9% had loans from family or friends. In all, 8% of the adult population has a loan or at least what they perceive as a loan (Graph 27). Men tend to borrow more from women from all sources.

Noteworthy to refer that experience from FinScope surveys is that people under report or don't necessarily admit to borrowing.

### Graph 26 – Forms of Credit

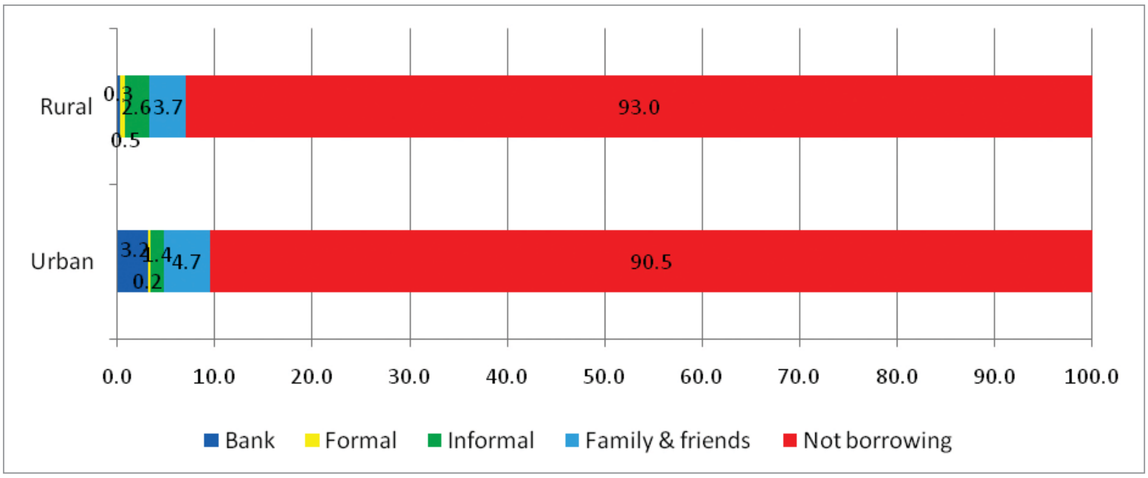



### Graph 27 – Credit/Loan Strand



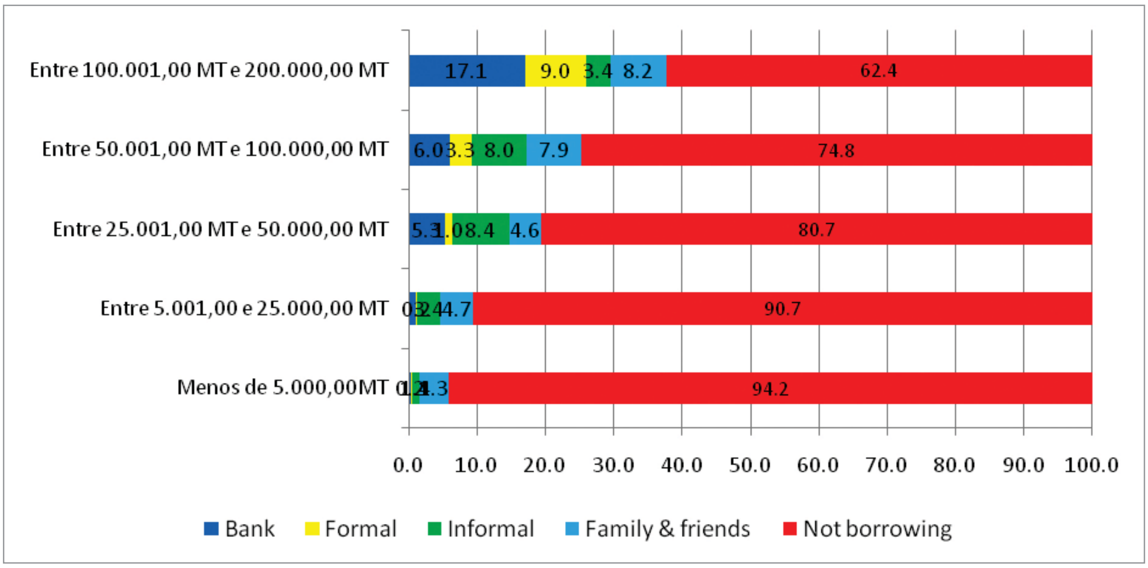

[27] Other formal institutions included farmer associations, *empresas de fomento* proving advanced agricultural input loans, microfinance operators, government specialized funds such as the FFPI, District Funds (7 *milhoes*), development finance institutions, microfinance operators.

### Graph 28 – Credit/Loan Strand by Area



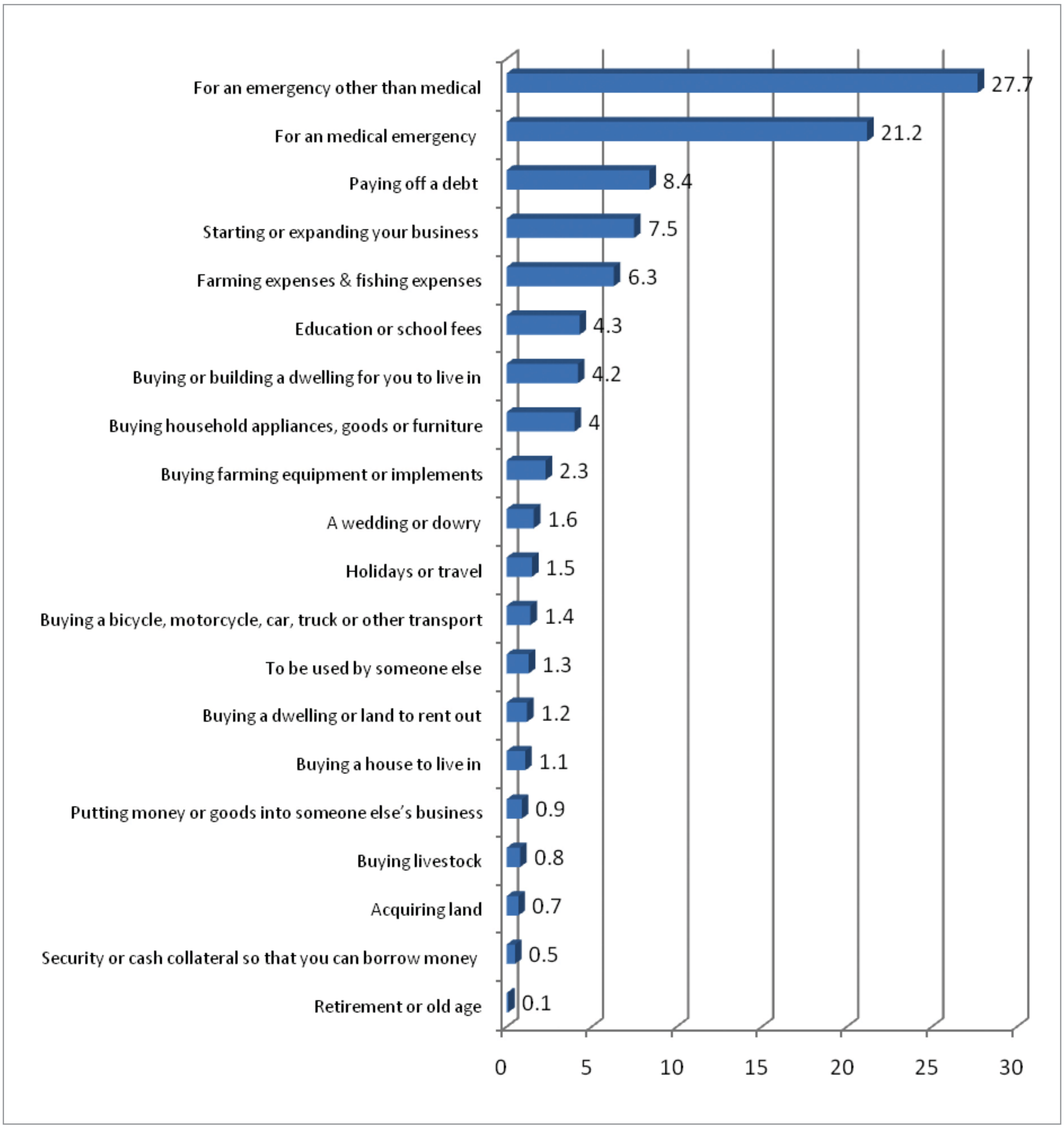

What may appear to be paradoxical is that the percentage of borrowers increases (in all categories) as income increases (see Graph 29). From the supply side this makes sense as the lending is less risky, the higher the income or wealthy the client is.

### Graph 29 – Credit/Loan Strand by Income



The reasons for borrowing mirror almost the reasons for which the savers were found to save. Graph 30 shows that the three main reasons to borrow dealt with emergencies or shortages of money while the fourth was to expand business.

### Graph 30 – Reasons for having a loan or borrowing money

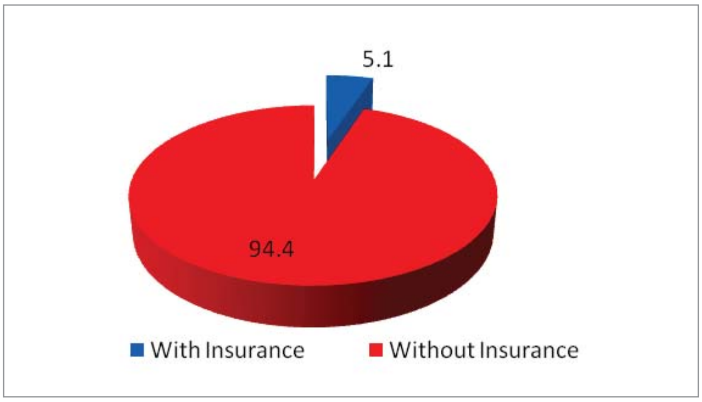



The main reasons for not taking up a loan related to the fear or the possibility of not being able to pay back the loan. The only other significant reason, apart from not needing a loan, was the lack of suitable guarantees. Again, as in the case of savings, the overwhelming reason for such low levels of borrowing relate to high levels of poverty.

## 12. Insurance

Awareness of what insurance is appears to be low as only 11.5% of rural adults and 31% of urban adults agreed with the statement "*having insurance protects you when you have a problem*". More than half of urban adults do not know what insurance is and more than three-quarters of rural adults are unaware. Graph 31 shows that only 5.1% of the adult population have insurance, with protection offered by formal and informal roughly split (2.3% and 2.9% respectively). A close examination of the types of insurance obtained from formal providers indicates is not undertaken on a proactive basis as most of the coverage is done passively as benefits are provided by employers (accident insurance, medical aid, and funeral) or is compulsory (third party vehicle coverage). Pension payments are also required from legally contracted workers. The only proactively obtained insurance of any significance in relation to other options is life insurance which is held by 0.5% of the population. The main form of insurance provided by the informal service providers is for funeral cover (see chapter 13).

### Graph 31 – Insurance




The main reasons why those adults without insurance did not have it related to ignorance about it: more than half (50.2%) said they never heard about insurance, while just less than a quarter (23.2%) said they did not know how it functioned.

The main reasons for having insurance is that it is legally compulsory (0.9%) or that someone else pays for it (0.6%). However a significant 0.7% states that having insurance means that they do not have to worry.

# 13. Informal Finance Groups and Associations

Informal financial services are accessed by 14.6% of the adult population mainly for savings purposes. The appeal to use them is that the savings products offered are not available from the banks.

Informal groups and associations play a major role in the provision of financial products for all the population – poor or rich (e.g. rotational savings, periodic deposit taking, short term credit, insurance, etc.). *Xitiques* (revolving savings groups with members taking turns at sharing the pot)[28] are most important accounting for 5.7% of the adult population (three quarters of *xitique* members belong to one group, with the rest belonging to two or more); 1.3% of the adult population belong to funeral associations[29] (2.5% of the adults said that they were covered by another members' fees); 0.8% of the adults belong to a group of family members sharing an account (*conta da familia*)[30]; 0.6% belong to an ASCA[31] and 0.3% belong to *xitique geral* (compulsory savings contracts).[32]

Generally, these informal groups have no linkage to the formal banking system: only 5.9% of the *xitique* group members belong to a group with a bank account or other banking product (e.g. checkbook) while 5.4% of the members claim that their groups use an account belonging to a third party (such as a member or other group) to keep their money safe. 14.5% of the members stated that their groups used receipt books. Only 5.5% belonged to groups that had statutes but 12.5% kept minutes after meetings. 28.1% belonged to groups which kept books to record savings and credits.

3.6% said that their group suffered theft or fraud from a committee member and only 1.8% claimed that members had stolen from or defrauded the group. On the whole, members seemed to be content with the way their groups operated: only 6.6% said that elected officials were not elected in a transparent manner and only 5% felt that their groups were poorly administered.

The main reasons for adults not belonging to these informal groups are: not having sufficient money (46%), not knowing anything about these groups (35%) and lack of interest (12.6%).

[28] Most adults (65.6%) that belong to *xitiiques* belong to *xitiiques* that operate on a monthly cycle and 23.5% belonged to groups with a weekly cycle. Few rotate on a daily basis. Member contributions vary considerably: 44.4% deposited values of less than 200MT but 16.1% deposited values in excess of 1,000 MT per round. The most common use to which the adult's last round was applied was for household goods or food.

[29] Funeral Associations are a form of informal insurance covering paying members and often their family members.

[30] The number of families belonging to these groups ranged from 2 to more than 10. Rather surprisingly, a third (32.8%) had more than 10 families contributing. The main perceived uses of these accounts were (in descending order): funerals, weddings, illness, accidents, education and travel.

[31] ASCAs are normally found in rural communities, usually obliging members to save during a specific cycle (normally 6-12 months) with members borrowing at a fixed rate of 10% per month (See de Vletter 2006 cited in footnote 12). Interest income is then shared amongst members at the end of the cycle. ASCA groups tend to be less than 20 members (60.6% of the adults belonged to groups of up to 20 members) but some belonged to groups exceeding 30 members (7.0%). ASCAs usually cater for poor communities: more than half (52.8%) of the ASCA members deposited value of 50MT or less during the last group meeting. ASCAs also cater for wealthier traders: 14.2% deposited more than 1,000 MT during the last round. Most members use ASCAs for the purposes of savings but almost a quarter (23.3%) borrows from the deposited savings.

[32] *Xitiique geral* has so far only been practiced in Maputo, usually in the informal markets (see de Vletter 2006 cited in footnote 12). Deposit amounts are contracted and made on a daily basis. At the end of the month the total deposits are collected minus one day's deposit which serves as the collector's fee. Daily deposits are usually small (40.2% of the members deposit 50MT or less per day) but a significant number (38.3%) deposit more than 200MT per day.

# 14. Financial Access and Living Standards

***Using a wealth index as a proxy for living standard***

Based on concept of Living Standard Measure (LSM) developed by South Africa Advertising Research Foundation (SAARF) and the concept of Wealth Index or Possession Index[33] using data from the Demographic Health Survey[34] we estimated a wealth (possession) index.[35]

This wealth index is a composite measure of the cumulative living standard of a household. The wealth index is calculated using data relating to a household's ownership of selected assets, such as televisions, radios and bicycles, crops, livestock, materials used for housing construction, types of water access, sanitation facilities, etc. Generated with a statistical procedure known as Principal Components Analysis (PCA)[36], the wealth index places individual households on a continuous scale of relative wealth.

To make sure that the index better represents the individual's wealth rather than that of the household, we have included, to the greatest extent possible, variables related to individual possession. The index seems to be valid when it is correlated with demographic variables.

The index is broken down into points that define wealth quintiles as: Lowest, Second, Middle, Fourth, and Highest, tentatively labelled as "very poor", "poor", "moderate", "well off" and "very well off".

The results show strong evidence of differentiation and discrimination among the upper scale of the index but weak variation among the lower scales "very poor" to "moderate" i.e. quintiles 1 to 3. The wealth index was therefore segmented in three categories: namely the poor 60%, (Q123), well off 20% (Q4), and the very well off 20% (Q5). Considering that 54% of the people are below the poverty line in Mozambique the categories seems to be consistent.

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33 Filme, D. and, Patritch, L. 2001. *Estimating Wealth Effects without Expenditure Data or Tears*. *An Application to Educational Enrollments in States of India*; Demography 38 (1) 115/132.

34 S. Rutstein, S. and K. Johnson, 2004. *The DHS Wealth Index*, DHS Comparative Reports No. 6, Calverton, MD; A. Deaton, 2001. *Health, inequality, and economic development*, WHO Commission on Macroeconomics and Health, NBER Working Paper No 8318

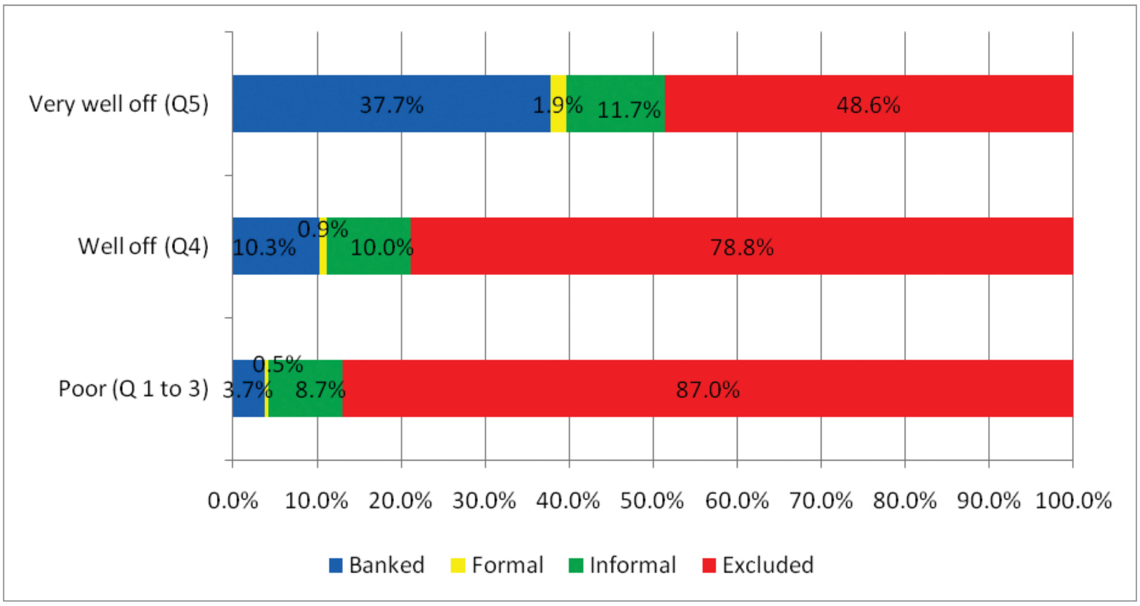
35 World Bank and UNICEF uses wealth index as measure of socio economic status.

36 Principal component analysis (PCA) involves a mathematical procedure that transforms a number of possibly correlated variables into a smaller number of uncorrelated variables called principal components. The first principal component accounts for as much of the variability in the data as possible, and each succeeding component accounts for as much of the remaining variability as possible. Many indicator variables are categorizations. To determine the weights and apply them to form the index, it is necessary to break these variables into sets of dichotomous variables (dummy variables). Filmer and Pritchett (see note 32) recommended using principal components analysis (PCA) to assign the indicator weights, the procedure that is used for the DHS wealth index. DHS uses the SPSS factor analysis procedure. This procedure first standardizes the indicator variables (calculating scores); then the factor coefficient scores (factor loadings) are calculated; and finally, for each household, the indicator values are multiplied by the loadings and summed to produce the household's index value. In this process, only the first of the factors produced is used to represent the wealth index. The resulting sum is itself a standardized score with a mean of zero and a standard deviation of one.

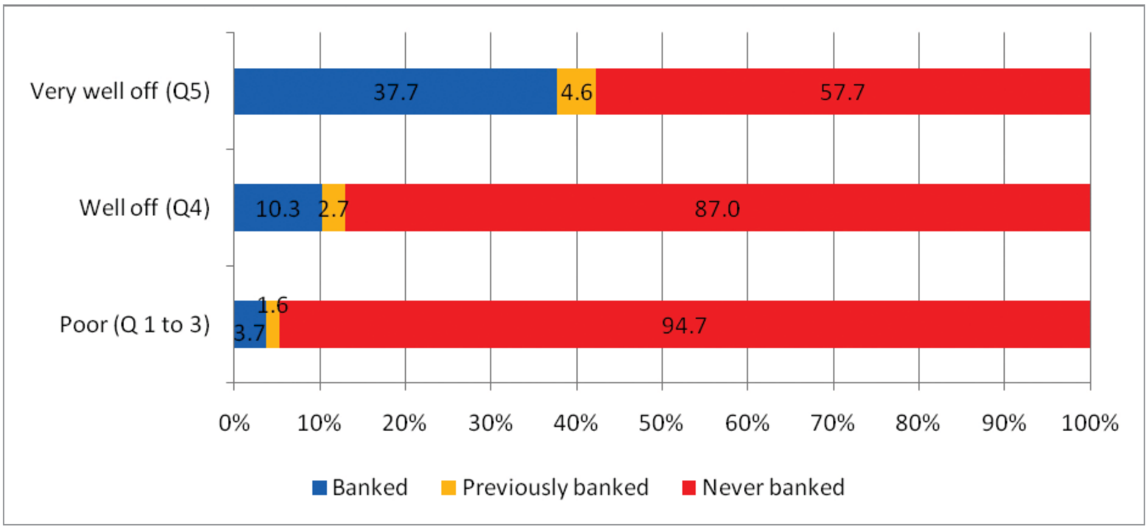
***Access to financial services by level of wealth***

Graph 32 and Graph 33 below show a clear relationship between the level of wealth, financial access and use of banking services. It is only among the wealthiest quintile that the majority of adults (51.4%) have access to financial services. Among the "well off", 37% are banked. Among the poorest 60% less than 4% have access to the bank services. It is noteworthy that the percentage of the adults informal service providers increases with wealth.

### Graph 32 – Financial Access Strand by Level of Wealth

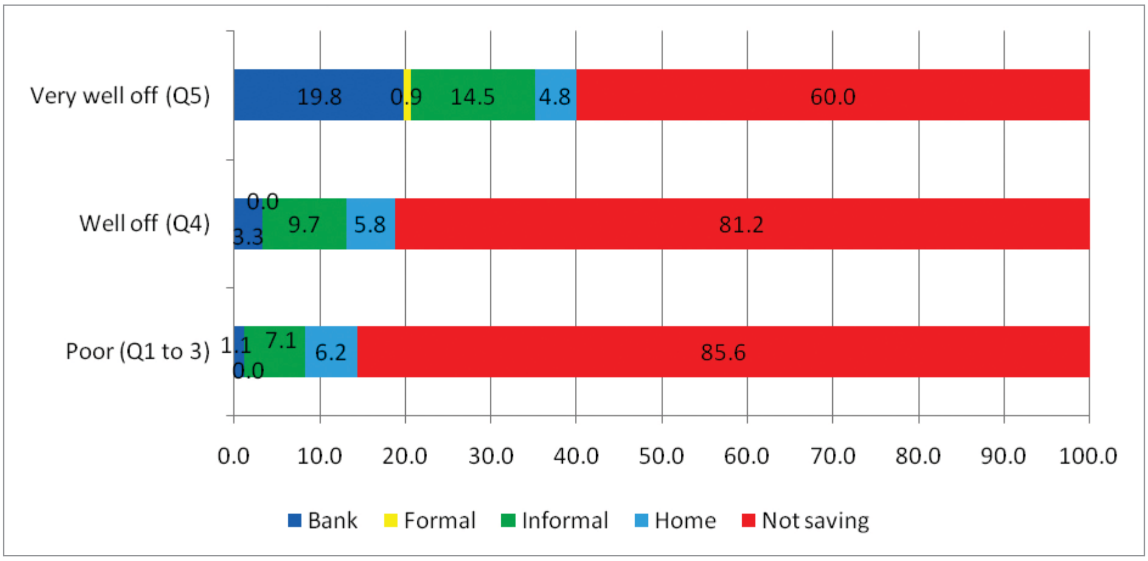



### Graph 33 – Current Banking Situation by Level of Wealth

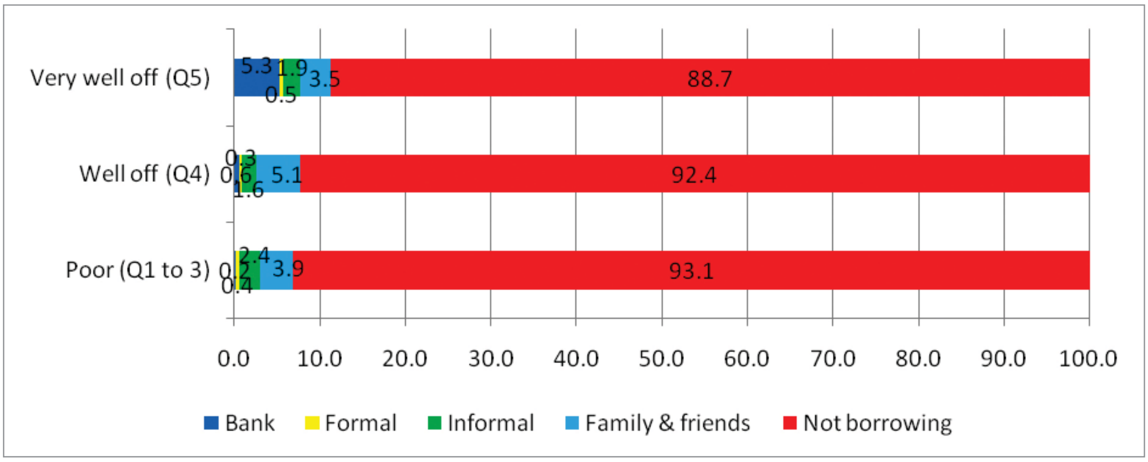


Graph 34 and Graph 35 also show a positive relationship between wealth and savings (with almost 20% of the wealthiest using banks). The level of credit shows a much weaker relationship to increases in wealth. Informal and home-based savings are the most common practices for all the lower and middle segments. Borrowing from friends and family is the most common way of obtaining loans for all groups.

### Graph 34 – Saving Strand by Level of Wealth




### Graph 35 – Credit strand by Level of Wealth



# PART III CONCLUSIONS AND RECOMMENDATIONS

## 15. Conclusions and Recommendations

***Conclusions***

The results of the 2009 FinScope Mozambique Survey are perhaps not surprising but nevertheless dramatic in revealing the extreme dichotomies prevailing between the modernizing urban areas and the poverty and isolation of the vast majority of Mozambicans. Prevailing peace, consistently high growth rates and investor confidence has meant that the chasm between urban and rural is being closed through infrastructural investment which has spread the coverage of the electricity grid, telephone service, cellphone networks, transport systems and, more lately, the banking system. Despite significant government and donor intervention to stimulate greater rural outreach of financial service provision, the findings show that Mozambique still ranks the lowest of the countries covered by FinScope surveys in terms of financial access and among the lowest in terms of the formally banked population.

An analysis of the geographic pattern of banking services shows that, although improving, the distribution of bank branches remains highly skewed towards urban areas, concentrating in the southern part of the country and focusing on areas of greatest economic activity while expanding to areas offering the greatest remaining market potential. This survey has, however, clearly demonstrated that the physical proximity of services does not necessarily resolve the issue of access. Increasing the network of bank branches in rural areas will of course raise the number of formally banked but we need to better understand the other factors that continue to constrain access.

Financial services, whether formal or informal, by definition deal with money. This survey has demonstrated that poverty is still pervasive and that many people in both urban and rural areas are commonly without money during a typical month and that declared income levels are extremely low. As long as such a degree of poverty prevails the lack of resources will remain the principal impediment to accessing financial services. As could be expected, the survey results show a clear relation between levels of income and the propensity to use formal banking services.

In addition to the resource constraint, access is also impeded through psychological barriers although one of the key perceptions of those who are familiar with banks is their trustworthiness, those who are unbanked or unfamiliar with banks demonstrated attitudes which reflect high levels of mistrust which, in turn, is likely to be a reflection of the low levels of education and financial literacy, particularly in rural areas. On the other hand, a significant percentage of the adult population expressed a need for safekeeping their funds, a need compounded by the degree of insecurity prevailing among the urban population in relation to crime, suggesting that, with better information and understanding (misconceptions relating to banking requirements is also a barrier), significant numbers of potential clients could be encouraged to deposit their funds at least for safeguarding – not only from criminals but also from other family members, both immediate and more remote.

Bank products are generally used for the purposes of safeguarding and transactions. Deposits and withdrawals are done on a regular basis by most bank clients and the use of ATMs is now more common than withdrawals from within the bank. Inter-bank transfers is also a regular service used by about a quarter the banked population.

In general, formal savings and lending products are accessed by a very small percentage of the population. For the long term, limited personal liquidity will continue to be a major constraint for expanding savings accounts and term deposits. The wealth index analysis showed a clear increase in the tendency to use savings products offered by banks as the level wealth of increased (although informal savings products remained popular). Borrowing from banks remains very limited especially from the conventional banks. The survey found that, although still scratching the surface in terms of the whole adult population, the three commercial microfinance banks appear to have made important inroads in opening access to short-term loans. Wealth index analysis show that the level of borrowing remains small at all levels and that the principal source of borrowing is family and friends, although the propensity to borrow from banks increases slightly with levels of wealth.

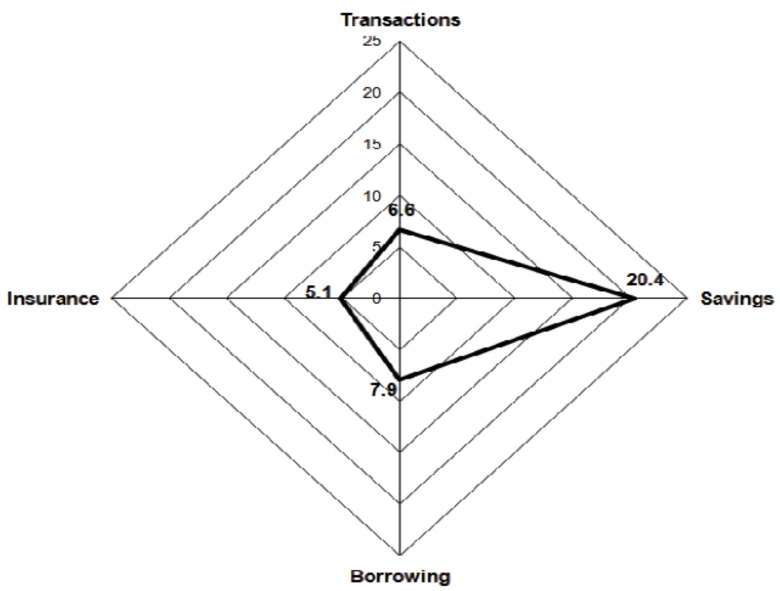
Other formal financial service providers, though providing a wide range of financial products, have so far had a minimal impact in terms of the financial access strand. Proactive insurance coverage is still very rare. Most insurance remains passive either through employers or compulsory through law (e.g. third party coverage). Pension fund contributions are legally required from all contracted workers.

The informal sector, not surprisingly, is most frequently resorted to by the adult population requiring financial services. The fact that both the poor and richer elements of society use these services is an indication that the products provided are more appropriate to the needs of a large mass of the population than those provided by formal providers. The products offered by the more urban based *xitique* groups and *xitique geral* deposit collectors are essentially *savings* products, forcing members to put aside funds until a fixed future date (varying from one to several months). Similarly, ASCAs are now providing an opportunity for poor rural communities to save and have become very popular. Insurance, mainly for the coverage of funeral expenses is largely covered through informal service providers.

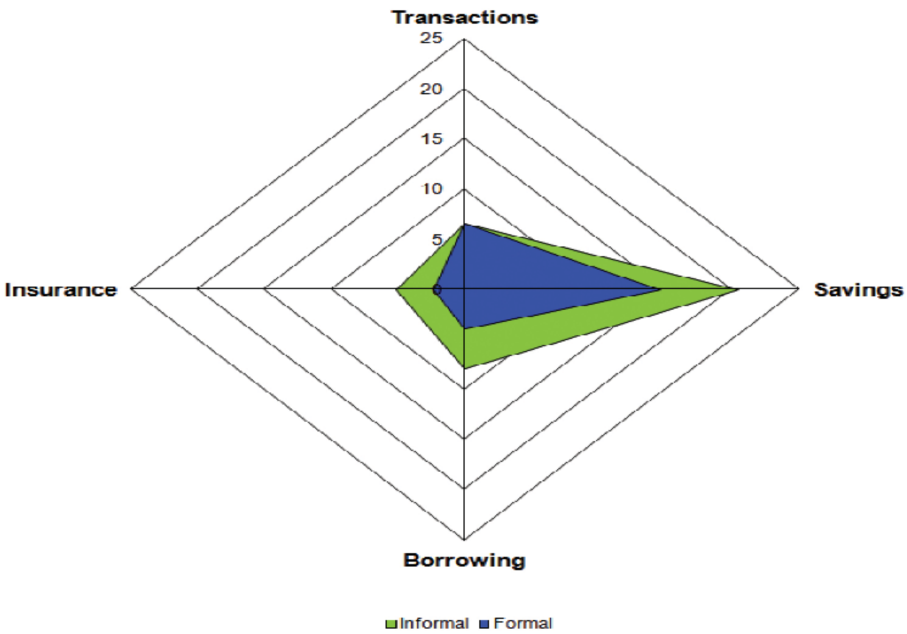
The vector diagrams below summarize the main findings of this study. The quadrangles indicate the degree of access to the four main products provided: savings, credit, transactions and insurance. The figures highlight the significant gaps between formal and informal service provision and the differences between urban and rural areas. Women behaved in proportionately exactly the same way as men in terms of access but their level of participation was slightly lower for each product category.

### Figure 5 – Landscape of Access

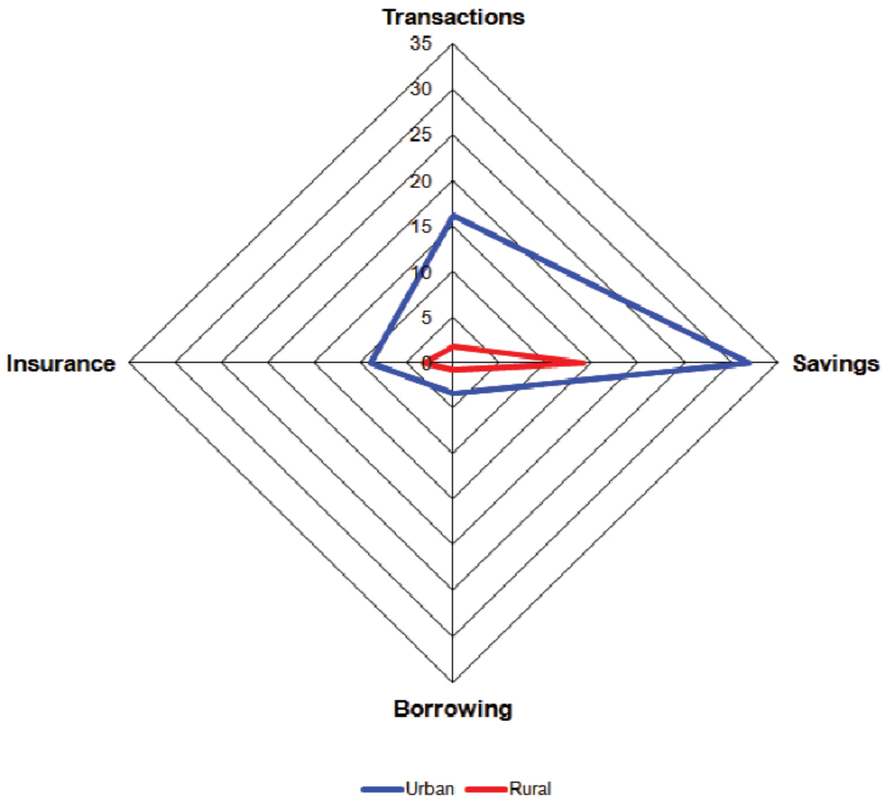
***Total***



*Formal and Informal*




*Urban and Rural*



***Recommendations***

Expanding the outreach of financial services has been a priority objective of government, donors and the private sector. This study emphasises the urgency for continuing to maintain that priority. The study has also shown that expanding the financial access strand is not just a question of supply but is intrinsically dependent of demand. The following recommendations are not specifically targeted but are considered to be relevant to all stakeholders

***Disseminate results to stakeholders***

Given that this is the first study of its kind, the results are important to policy makers, donors and financial service providers alike and should be disseminated and debated all levels. A broader and better understanding of the financial perceptions and needs of Mozambican adults is expected to improve the environment, product quality and resources available for financial service delivery. The media should be encouraged to divulge the main findings and stakeholders stimulated to discuss them within their organizations.

***Promote a coordinated national financial access/inclusion strategy***

The government has launched a series of strategies closely linked to the deepening of financial service provision (*bancarização*, National Microfinance Policy and Strategy and the Rural Finance Strategy). All of these initiatives are financially assisted by the AfDB/IFAD supported Rural Finance Support Programme. In turn, the donors have mounted a plethora of projects providing assistance to microfinance institutions, rural finance, standardising financial accounting systems, banking supervision, etc. The impact has been palpable but these initiatives have had a tendency to drift off into their independent directions. It is hoped that the FinScope findings will stimulate a more focused and coordinated approach to promoting outreach and improved service delivery.

***Improve stakeholder dialogue***

Linked to the above point, is the need for the stakeholder lobby groups to work on common-ground issues. As the financial sector became more sophisticated, the level of dialogue became more introspective. As the microfinance industry grew, the common stakeholder group (Microfinance Informal Working Group) involving donors, government, microfinance providers and consultants broke up into separate groups representing the providers (Association of Mozambican Microfinance Operators – AMOMIF), donors (International Partners for Rural and Microfinance – IPRMF) and government. ASCA promoters have not yet formed a group but meet fairly regularly, while the banking sector is represented by the Mozambique Bankers' Association. Government and donors have played an important role in getting stakeholders linked to microfinance and rural finance together through a series of national microfinance conferences (starting in 1998 with the fourth being held in 2007). It is recommended that in the future such conferences take on a broader perspective, including representatives from the formal banks as well as informal financial service providers. A major advance in stakeholder dialogue was achieved through the Making Finance Work for Mozambique Forum in 2008, as part of the continental Making Finance Work of Africa (MFW4A) initiative.[37] By divulging new technological trends such as cellphone banking (see below) and financial literacy campaigns, the forum provided a useful backdrop to the launching of the FinScope survey.

***Promote public/private/donor partnerships***

In recent years there has been a tendency for donors to engage in greater support for the more formal elements of the financial sector. Previously, most support was channelled to microfinance and rural finance but lately commercial banks are being targeted with subsidies and guarantee funds in order promote rural outreach and to stimulate lending to small and medium enterprises and agricultural value chains. There have

[37] The Partnership for Making Finance Work for Africa is a major initiative coordinated by the African Development Bank to support the efforts of African countries to boost economic growth and fight poverty by encouraging and facilitating the development of the financial sector.

also been plans to create private sector investment funds using government-controlled donor funds to provide lower interest medium-term capital loans. The government's Rural Finance Support Programme uses donor funds to subsidize some commercial banks to construct rural agencies. It is hoped that the results of the FinScope survey will further stimulate these trilateral partnerships to address the imbalances highlighted.

***Develop and promote rural pro-poor financial products***

Microfinance has been hailed for many years as offering pro-poor financial products. There is now growing debate about just how effective some forms of microfinance have been in alleviating poverty[38] and a client impact study on urban microfinance in Maputo suggests that the majority of clients drop out within two years because the increase in business income is not justify continued borrowing.[39] One conclusion is that credit by itself does not always help microenterprises as the majority of micro entrepreneurs are not born entrepreneurs and require basic business training to ensure that credit is productively applied. Much can be learned about the popularity of informal financial services which continue to be accessed by the majority of those within the financial access strand (14.7% of the adult population use informal financial services vs. 11.9% using banks while 11.2% save through the informal sector providers vs. 5.3% in banks). Although banks, in particular microfinance banks, are more likely to provide appropriate pro-poor lending products, the informal sector has demonstrated that savings is popular among the poorest elements of society because the products and services offered are appropriate to their needs and accessible. The relatively recent and rapid emergence of ASCAs in rural areas is clear testament that the poor will save through accessible channels. Considerable funding has been provided to the Rural Finance Promotion Programme and through various donor initiatives to develop innovative pro-poor financial products. The government's attempt to provide credit through its OILL initiative to generate employment and income has attempted to increase lending to rural enterprises (it is claimed that some 26,000 beneficiaries have accessed these funds since initiated in 2006) but has been hampered by the lack of administrative capacity and poor repayments as is usually the case with government administered lending programmes.

***Improve targeting of potential clients***

The expansion of banks in rural areas follows a clear pattern of capturing salaried clients i.e. establishing branches in areas with critical masses of formally employed private and public sector workers in the hope that employers use their services to deposit their workers' salaries. This not only helps capture deposits which are usually transferred to interest earning assets (treasury bills and low-risk loans) in the economic hubs such as Maputo and Beira but promotes local consumer lending from which instalments are automatically deducted against salaries. So far there has been very little evidence of rural bank branches of the conventional commercial banks offering productive enterprise loans. The long queues outside of the ATMs in rural areas do however, attest to the fact that many of the rural people within a reasonable radius of the banks are opening current accounts and using their debit cards. However, the FinScope findings demonstrate that only a very small fraction of the adult population is accessing these services. The findings clearly show that the lesser educated and poorer elements of both rural and urban society are not availing themselves to the banks. If the banks wish to attract these clients (so far, there is little evidence that at least the conventional banks do[40]), advertising needs to be re-oriented to the reality of this potential client group. The findings indicate that such advertising would be most effective via radio.

***Promoting financial literacy***

Linked to the above point is the challenge of overcoming the prevailing levels of ignorance regarding financial

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[38] See for example "*A Partial Marvel*" The Economist July 16, 2009.

[39] Gabrielle Athmer. and Fion de Vletter, 2006. *Poverty Outreach and Impact Assessment Study of Three MFIs in Maputo, Mozambique* Netherlands Platform for Microfinance.

[40] At least two microfinance banks have actively targeted remote rural clients. One has introduced mobile banking in two severely under-banked provinces and another has launched an aggressive campaign to issue debit cards and current account contracts in remote rural areas but requiring deposits in the branch located in the provincial capital.

service provision. No will use a service unless they know what it offers and how it is used. Again the radio, particularly community radios which have a broad audience, is the most suitable media form for transmission. Collaboration between the Mozambican Bankers' Training Institute (which also offers courses in microfinance) and other specialists such as anthropologists, media producers and actors could stimulate interest or at least curiosity about the various financial service options available to them, including informal ones.

***Develop cellphone banking***

cellphone banking has taken off in various countries in eastern and southern Africa. Presentations on their potential at the Making Finance Work for Mozambique Forum captured the imagination of the audience. This technology would create a whole new dimension to banking and has excellent potential for radically reducing the percentage of those excluded from the financial access strand. Although cellphone coverage is now available in 85% of the country's districts, just over 10% of rural adults have cellphones (vs. more than 40% of urban adults). Although many hurdles would have to be jumped before such as service could be introduced to Mozambique (e.g. the passing of appropriate financial legislation), it would appear that the issue is not "if" but "when". The findings found one-third of the adult population would use cellphones to transfer money if they could.

***Develop appropriate insurance products***

The very shallow use of insurance products both from formal and informal providers reflects both the level of ignorance of the advantages offered from these products and lack of appropriateness. Recently there have been initiatives exploring insurance products by MFIs and to ASCA groups. The promotion of such products could be supported by the Rural Finance Support Programme.

***Regulatory Reform for SACCOs***

The recent initiative to introduce savings and credit cooperatives (SACCOs) through the amalgamation of ASCA groups in Manica Province is an important first step towards integrating ASCA groups with commercial banks (as SACCOs, being legal entities, would have access to bank loans to raise the level of circulating loan capital for their members). However, stringent reporting requirements for savings and credit cooperatives will inhibit the creation of SACCOs in Mozambique. The country experiences of east Africa where SACCOs play a very important role in stimulating rural financial access should be studied with the objective of revising the regulations that cover SACCOs.

***Undertake a supply side study***

Developing a broad and effective financial inclusion strategy will require a complementary supply-side study which would survey the broad spectrum of financial service providers, identifying what services exist, where they operate, what types of products and services they provide and to whom.

***Continue monitoring***

FinScope surveys provide a diagnostic overview of a county's situation at a particular time. Their purpose is to generate financial sector reform at all levels aimed at improving access as well as the quality and appropriateness of services. To gauge the impact of reform and the response to better financial service provision will require periodic follow-up surveys. The FinScope methodology improves with accumulating experience at the international level. At the country level, important lessons are learned during each round resulting in a continually improving and evolving questionnaire. Considerable time was spent in developing the first questionnaire to meet the specific needs of Mozambique. Nevertheless, subsequent analysis showed that ambiguities such as the "affordability" of a bank account and to whom remittances were sent require future fine tuning to produce better results. Moreover, subsequent studies allow for more probing on issues or behaviour that were identified during the first round.

## Annex 1 – Survey Questionnaire