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Rural Finance Policy Development in Eastern and Southern African Countries: Contribution of IFAD-Supported Rural Finance Programmes

Annex 4. Country report for the Republic of Mozambique

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September 2014

Contents

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Chapter 1

Introduction

1.1 Background to the study

In the backdrop of IFAD's effort to improve livelihoods by enhancing access to
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financial services among rural communities, the Rural Finance Knowledge Management Partnership (KMP) carried out a study to find out how IFAD-supported rural finance programmes contribute to policy development in the Eastern and Southern African region. The focus of the study was on countries with active rural finance programmes and components—Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia—where IFAD has been increasingly engaged in policy dialogue with a view to influencing policy. The IFAD programme also seeks to influence policy to minimize adverse effects of global trends and maximize incentives and opportunities for the rural poor. Apart from challenges in the area of rural infrastructure, capacity of financial service providers and clients, other factors such as legislative, regulatory, supervisory and overall policy constraints often stand in the way of delivery of need-based financial services in the rural area. IFAD has been supporting capacity building of policy-making bodies, development of appropriate decentralized policy and practices, evolving market-oriented research/studies and dissemination of learning.

Considering the critical importance of creating finance policies that are appropriate to rural settings, KMP proposed to undertake a region-wide *Study of Rural Finance Policy Development in the Eastern and Southern African (ESA) Countries—Contribution of IFAD-Supported Rural Finance Programmes,* and to determine the way forward to addressing the key constraint—insufficient skills in information technology and insufficient exposure to skills required for good information management—mentioned above. The study covered all the eight ESA countries where IFAD had been active. For the study, KMP identified a consultant, Biswa Bandhu Mohanty, on account of his expertise and wide experience in rural finance.

1.2 Purpose of the study

The study was undertaken with the following overall objective: To produce a KM document for use by the stakeholders of RF programmes being implemented by IFAD in the 8 selected ESA countries. The specific objectives of the study were to:

- Identify major policy issues in ESA countries which IFAD projects have enabled to sort out/address during the course of implementation in the countries;

- Bring out successful strategies adopted/institutional mechanism used to influence policy issues, leading to fulfilment of programme objectives;
- List out country-specific policy issues in ESA, which have regional and global implications/impact;
- Suggest sustainable institutional mechanisms that have to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion and inclusive growth; and
- Suggest ways and means for enhancing knowledge management, sharing of experience/best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.

1.3 Target organizations for the study

In the 8 selected countries (Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia) the study targeted public and private institutions that have national responsibility for, as well as commercial interests in, rural development. They included Central Banks; Insurance Regulatory Authorities; Co-operative Regulatory Authorities; Ministries of the National Governments including Ministry of Finance (MOF), Ministry of Agriculture/Cooperatives (MOA); MF Associations, Co-operative Unions/Alliances; Apex Development Banks; Policy Research Agencies; and leading Civic Society Organizations (NGOs, CBO, etc).

1.4 Data collection methods and tools

Three main methods or tools were used in gathering data: (i) the questionnaire shown in Appendix 4.1 was designed to solicit views/inputs from the concerned IFAD officers at the project level in all eight countries targeted for the study. (ii) Interviews and consultations were used through face-to-face meetings and by e-communication. The consultant visited the capital cities of five of the target countries from 23 June to 9 July 2014; they, included Lusaka (Zambia), Dar es Salaam (Tanzania), Kampala (Uganda), Addis Ababa (Ethiopia) and Nairobi (Kenya). The visits facilitated interviews and discussions with officials of the institutions targeted in those countries. (iii) Intensive literature survey was used to collect information at country/institutional as well as regional and global levels. Since Mozambique was not visited the study was based mainly on study of national strategy documents. The list of documents consulted is given in Appendix 4.2.

1.5 About this report

This report focuses on the study findings with respect to RF development efforts, the contributions of IFAD RF programmes and the emerging policy issues and challenges and recommendations for addressing them for furtherance of rural finance policy in Mozambique. Although presented as a standalone report, it is intended that this report be read alongside the main study report which addresses RF issues that prevail regionally and globally.

It is also envisioned that the reader will seek to benefit from the following Case Study Reports attached to the main report as appendices: MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (AEMFI) (Appendix 8), Micro Finance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). For the sake of comparison and regional learning, the reader should also seek to benefit from *Country Reports* for other ESA countries which constitute an important output of this study. The full list Country Reports includes Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).

Chapter 2

Study findings

2.1 Rural Finance Policy Initiatives and Positive Developments

2.1.1 General economic environment

Human development scenario

Despite the impressive economic growth rates and the encouraging development progress that Mozambique had realized in recent years, poverty continues to be severe and widespread in the country. The vast majority of the rural population still lives on less than US$1.25 a day. Poverty remains predominantly a rural phenomenon in Mozambique as more than 70% of poor households live in rural areas. Incomes from both farming and fishing are meagre, and most of the rural population survives at subsistence level. Overall, poverty in rural Mozambique is the consequence of isolation, inadequate infrastructure and the consequent lack of access to goods and services. The central and northern provinces of Mozambique have greater agricultural potential, with more fertile soil and rainfall than other parts of the country. In general the country remains one of the world's poorest, ranking 184 out of 187 countries according to HDI (UNDP, 2013).

Recovery efforts

Mozambique's recovery effort after 1992 peace settlement has been remarkable. Strong economic growth (with an average annual rate above 7%) has been sustained through macro-economic liberalization, massive public investment in infrastructure and large flow of foreign direct investments. Enabling factors for expanding agricultural and rural financial services include macro-economic environment, supportive legislations, regulatory framework and assistance from development partners. As per the IMF report, **"**Mozambique's macroeconomic performance remains strong and program implementation satisfactory. While aggregate indicators point to a sound and liquid banking system, the authorities remain focused on safeguarding financial stability through strengthening supervision tools. The authorities also remain focused on the transition towards a more risk-based banking supervision through migration to Basel II (IMF, 2013)".

Banking and financial sector scenario

The formal financial institutional architecture included 18 commercial banks, 8 Micro banks, 7 Credit Unions, 11 Savings & Credit Unions and199 Micro Credit Operators. The CBs had Capital Adequate Ratio of 17.9% (as against CAR at 8 % stipulated by Mozambique Central Bank) as on 31 December 2012. The banks have been implementing Basle II framework from January 2014. Banks account for the bulk of assets of Mozambique financial system (97% of credit volume). All but one is majority foreign–owned, while three banks - BNI, BIM and Banco Unico

- maintain majority Government participation. Four banks - Banco Pro Credit, Bank Opertunidad, Socremo and Banco Tchuma are devoted to micro finance. Mozambique's banking sector has come through the recent global financial crisis relatively unscathed and had significantly expanded its asset base over the last 5-6 years. Even though there have been new entrants in the financial sector in the recent years, the banking system remains with little competition from other forms of financial services.

2.1.2 Legislative and policy initiatives

Government of Republic of Mozambique Initiatives

Mozambique Financial Sector Development Strategy (MFSDS) - 2012-21: The Ministry of Finance of the Government of Republic of Mozambique (GRM) with funds from the World Bank's First Initiative, formulated Mozambique Financial Sector Development Strategy (MFSDS) - 2012-21. The adoption of FSDS will be an important milestone in strengthening, broadening and deepening the financial sector. The strategy encompasses all financial areas, with focus on rural areas and aims at developing a sound, diverse and competitive sector which provides citizens and businesses, particularly MSMEs, with access to a wide range of high quality and affordable financial services. High levels of poverty call for a swift implementation of the updated Poverty Reduction Strategy 2011–14 (PARP) to generate more inclusive growth.

Rural development and poverty reduction programmes: Various Plans and Programmes have been chalked out for rural development and poverty reduction by the GRM which include Strategic Plan for Agricultural Development (PESDSA) 2010-19 Green Revolution Strategy -2008, Poverty Reduction Plan (PARP) 2011-14 Bread Basket Strategy for Beira Agriculture Growth Corridor (BAGC) 2011-14, Plano Quinquenal do Governopara 2010-14, District Development Fund, etc. Improved access to financial services in rural areas, with special focus on women and small farmers was recognized as a developmental strategy of the GRM.

Bank of Mozambique (BOM) initiatives & donors' support

Deposit Insurance Fund: Steps were being taken with the support of IMF and Kfw to make the Deposit Insurance Fund (DIF), an integral component of IMF framework to safeguard financial sector's stability. DIF-related regulatory and operational guidelines have been finalized with a view to making the DIF fully operational. The BOM has drafted a law for the creation of private Credit Registry Bureaus (CRBs) to compile information on current/past borrowers; this is intended to lower information cost and to improve access to bank financing.

Modernization of credit regulations: The authorities are also engaged in restructuring and modernization of the BOM's Credit Records Centre which is an essential tool to monitor banks' credit risk and conduct meaningful stress tests. Building on stress-testing results, further steps to enhance risk-based banking supervision are also being taken through the migration to Basel II which should be concluded in 2014. The authorities also aim at finalizing their full compliance with the Basel Core Principles. The capacity to perform regular stress tests by the Central Bank was being enhanced. A revision of the definition of non-performing loans (NPL) and their accounting to make them inter-nationally comparable were being pursued.

Enhanced financial sector surveillance: The BOM continued to enhance its financial sector surveillance. The BOM strives to further enhance financial stability and promote market development through continuing national payment system reforms**.** This would mainly be achieved through refinements in BOM's oversight practices and development of retail payment systems. Based on IMF TA, the BOM had approved a payment systems oversight policy strategy in March 2012 and is engaged an in implementing an oversight function.

World Bank initiatives

The World Bank conducted a diagnostic study of consumer protection in the banking and non-banking sectors in Mozambique (World Bank, 2012), covering institutional architecture, disclosures and sales practices, customer account handling and maintenance, data protection, dispute resolution mechanism, guarantee schemes and insolvency, consumer empowerment and competition. The report gave a number of recommendations to improve credit reporting, financial education, legal, institutional and regulatory reforms in financial services. With IMF assistance, a consumer protection framework is envisaged to be designed and promote financial awareness for enhancing outreach so as to allow consumers (including SMEs) to make better use of available financial services and to encourage competition and innovation amongst financial services providers; and to provide consumers with reasonable protections against unfair business practices, while ensuring soundness of financial institutions.

2.1.3 Financial inclusion initiatives

Government initiative to review Land Tenure System

All lands in the country are State-owned. The DIREITO E APPROVEIT AMENTO DE TERRA (DUAT) is the only form of land tenure (exclusive, inheritable and transferable 99 year leases). Mozambique ranks 131 of 183 countries in enforcing it. DUAT does not serve as an acceptable form of collateral in the formal sector. Efforts are being made to assist rural people in obtaining DUATs to protect their land.

Bank of Mozambique initiative on mobile banking services

The Bank of Mozambique introduced a scheme where service vehicles travel to rural communities periodically to offer financial services. It had a positive impact. The average number of adult people served per branch of CBs is about 4 times higher in rural areas as compared to those in urban areas. People have to travel long distances to reach a branch. Community-Based Organizations (CBOs) have been increasingly supporting building up/expansion of ASCAs in rural areas. A number of promotional organizations including Care, World Vision have been engaged in this endeavour duly supported by GRM, IFAD, AfDB, FAO and World Bank.

Rural financial institutions

The country's supply of agricultural and rural finance comes from cbs, micro banks, credit cooperatives, micro credit operators, rural financial Associations, ASCAs, out grower companies, commercial advances, informal agents and government funds. 69% of Mozambique population in rural areas are primarily dedicated to activities related to agriculture, (FinScope 2009).The number of bank branches generally and particularly in rural/non-urban areas has been expanding significantly. There were 463 bank branches in the country with 117 (about 25%) were located in rural areas in 2012.

IFAD initiatives

Due to support and initiatives under IFAD's RF programme, considerable regulatory reforms, institution strengthening, innovative delivery practices and congenial policy environment in RF had been brought about in the country as narrated in the next section.

2.2 Role and contribution of IFAD rural finance programmes

2.2.1 Preparing country strategic opportunities programme

IFAD had prepared Country Strategic Opportunities Programme (COSOP) in August 2012 in harmony with all other contemporary plans (IFAD, 2012). The COSOP is an important strategic document for all stakeholders. The Poverty Reduction Plan (2011–14) had 3 major objectives:

- To increase the access of small holders and artisanal fishers to production factors, technologies and resources;
- To increase the access and participation of small holders and artisanal fishers to markets that can bring them equitable share of profit; and
- To increase availability of, and access to, appropriate and suitable financial services in rural areas through enhancement of institutional and policy environment; promotion of community-based financial services; support for expansion of formal financial institutions; and extension of the range of financial products and services.

IFAD had also prepared Strategic Plan for Agricultural Development (2010-19) and Strategic Plan for Artisan Fisheries Sector (2016-19).

2.2.2 Highlighting policy development approach

The COSOP document highlights the following which is apt and relevant for future approach.

> "Every ongoing project already includes a component directed at promoting a supporting policy and institutional environment for their respective areas of intervention and gathering information for evidence-based policy dialogue. Such an approach, which has proved to be effective in the past, will be continued in future and will be strengthened by setting up of project KM, develop clear linkage with the innovation and scaling up approach outlined above,& promoting multi-stake holders' avenues where policy changes will be advocated and discussed. IFAD's engagement in policy will be driven primarily by policy relevant issues that emerge from IFAD's project operation, priority areas for policy dialogues."

The core of IFAD's policy development approach, on which the COSOP is based, is summarized in Box 1.

Box 1. IFAD's Policy Development Approach

"IFAD's approach will be geared primarily to building up the capacity of local stake holders to emerge in policy dialogue processes. Government institutions directly involved with IFAD-financed projects will be supported in gathering project operations and building a policy agenda around the main issues identified. Producers' Organizations will also be strengthened so that they can formulate their own policy agenda and actively promote it in policy consultations at different levels. The CPT will promote policy changes by reporting on policy issues and proposing recommendations on the occasion of the programme reviews. Furthermore, policy issues arising from IFAD-supported projects will also be fed in to the relevant sector Working Groups that constitute a privileged forum of dialogues between the Government and the main donors, supporting specific sector."

2.2.3 Participating in policy forums

IFAD has been an active member of various Pro-agric Coordinating Groups and co-chairs the Extension Sub-Group. Working Groups exist in several sectors as forums for coordination, knowledge exchange, harmonization and dialogue with Government. IFAD is a member of the Working Groups on RF and also Fisheries. Since 2007, the UN System in Mozambique has engaged in implementation of the Delivery as one Initiative. The UN Development Assistance Framework (2011-15) is being developed as IFAD Assistance Framework Programme (2011-15). IFAD participates in one joint programme conducted with FAO and WEP on Building Commodity Value Chain and Market Linkages for Farmers' Associations.

2.2.4 Influencing policy and legislative changes

Important policy and legislative changes have been promoted on the basis of the evidences emerging from IFAD supported projects, such as the by-law introducing three-mile areas for artificial fishing, the legal framework for co-management of coastal fishing areas and the revision of the Association Act. The endogamous policy dialogue process among the national institutions has been an effective policy resolution approach adopted by IFAD. In IFAD-supported projects, the combination of support for policy, institutional development and field activities has been very effective in providing inputs and evidences from the grassroots level to identify actual issues and constraints and possible practical solutions and policy refinements. IFAD has contributed to supporting the emergence of Producers' Organizations in the fisheries sector. The promotion of these organizations led to new legislations on registering Producers' Associations and to scale up Savings and Credit Groups. The COSOP highlights this experience with a view to promoting professional producers' organizations and facilitating dialogue with public authorities.

2.2.5 IFAD's Rural Finance Intermediation Programme (RFIP) gearing policy development

IFAD's Rural Finance Intermediation Programme (RFIP) - July 2005-Sept.2013 - was been designed based on the premises highlighted in IFAD policy development approach. The 8-year project had 4 broad components: (i) Policy and legislative Support, (ii) Innovations and Outreach Facility (IOF), (iii) Community-based Financial Institutions, and (iv) FARE Programme Management (see also Text Box 8.2). The objective of Component I of RFIP was to create a positive and conducive institutional and policy environment for the development and sustainable provision of rural financial services. The objectives of Component II & III were to improve access to financial services by individuals, groups and enterprises in rural areas. The IOF sought to adopt instruments of venture capital, guarantee funds and matching grants to rural enterprises and public sector development. The objectives of Component IV were to combine the management of a major national rural finance support programme with an effort of institution building and creating an effective manager of whole sale funds to MFIs operating in rural areas.

Box 2. FARE—A unique apex agency fairing well

FARE was an executive agency created (1992) to support reconstruction of Mozambique for managing the public fund. Its statute (as amended in 2009) provides for engaging in different types of financial operations including guarantee funds management and fund management of loans and grants, promotion of innovative financial products and services. The FARE is a unique wholesale financial institution, with also scope for retail lending.

2.2.6 Synergizing policy-making agencies

The first component in the form of Policy, Legislative and Institutional Support for the promotion of rural financial services envisaged the inclusion of all major sectoral stakeholders including the Supervision Department of the Bank of Mozambique (BoM) and the National Directorate for Promotion of Rural Development (DNPDR) as implementing agencies and major policy and strategy coordinating bodies. Similarly, the National Directorate of Women Affairs (NDWA), financed out of AfDB programme resources under RFIP, played a useful coordinating role. The Directorate of Investment and Cooperation (DIC) and Mozambique Association of Micro Finance Operators (AMOMFIs) were envisaged to have critical roles. Emphasis was laid on the development of a strategic framework for development of rural finance.

2.2.7 Institutional and HR capacity building for stakeholders

With the Bank of Mozambique, the activities included the training and skills development of supervisors for non-bank financial institutions, sectoral initiatives for microfinance institutions and training and management development at different levels. The training of specialized inspectors enabled overall strengthening of the Supervision Department and the establishment of 6 Regional hubs with inspection units in different provinces to operate closer to the supervised rural finance institutions. International exposure visits to Peru, Morocco and Germany were undertaken. The visits aimed at strengthening the supervisory capacity of BOM for different types of microfinance institutions and facilitated the drafting of the law for the establishment of a credit reference facility.

2.2.8 IFAD-supported RFPU catalyzes policy development Process

The rural finance policy and rural finance strategy were evolved, resulting in a more predictable policy environment for rural finance in Mozambique. A Rural Finance Policy Unit (RFPU) or UAP (Unidade de Apoio À Políticas) was established within DNPDR. This played a catalytic role in the process of financial sector development and deepening of financial inclusion. Further, the Unit coordinated the implementation of three international conferences on microfinance in Mozambique and coordinated microfinance support projects of other international donors such as UNCDF, credible lobby organizations vis-à-vis donors and government agencies for a campaign for promotion of savings. The Rural Finance Policy Unit had a major impact on developments in the sector. For example, the Rural Finance Strategy developed by the Unit spearheaded the deposit campaigns that was launched and carried out countrywide and importantly, there was a joint follow up with FARE on the growth and institutional development in Mozambique**.**

2.2.9 Developing Rural Finance Strategic Framework

The Rural Finance Strategic Framework was approved by the Council of Ministers in April 2011. The Rural Finance Reference Group was set up in 2007 which met quarterly had facilitated conduct of five major microfinance conferences and finally the launching of several national savings mobilization campaigns;

2.2.10 Increased rural business activities

Due to IFAD's Programme, relevant financial institutions had to legalize their business and established outlets in rural areas, increasing the proportion of rural enterprises with access to financial services from registered financial institutions.

Chapter 3

Emerging issues / challenges and recommendations

3.1 Issues, Challenges and Opportunities

- Mozambique possesses a wide range of natural assets that offer extensive economic and employment potential. The major development challenge is to build thereon a pro-poor, labour-intensive growth. Agriculture and fisheries are expected to play key roles. Here, access to RF services assumes significance.
- GRM's Poverty reduction Strategy envisaged reducing incidence of poverty from 55% in 2011 to 42% by 2014. Since 75% of poor people live in rural areas, poverty in the country remains a rural phenomenon. Hence, pace and quality of rural finance should be enhanced.
- Bank agencies are present only in 39% of 128 rural districts, although number of branches is increasing in rural areas. Other forms of rural financial intermediaries, as are various innovative financial products and services, assume importance for deepening financial inclusion.
- Only 10% of land area is cultivated yet 46% of total land area is arable, while 99% of country's food production from small farmers. RF needs to be focused on SF and agricultural production and productivity.
- Rural Finance is still an infant sector. Although the number of formal and informal RFIs is increasing, their depth of operation is small and their outreach is limited. The scale, speed and skill (3 S) in RF should be enhanced.
- Fin Scope Survey, 2009 reported as under: "The low level of financial literacy in rural areas is staggering; less than 10% of rural population knew what the following finance-related terms meant savings account, money orders, interest on loans, insurance, debit card, interest on savings, exchange rate and bank charges/service fees. Just under 50% knew what a bank loan is with 21% having heard about it, but not knowing what it meant+++. The data show 76% does have an idea of the concept of credit, if not understanding more technical terms related to financial services in general". Apart from supply of financial services, demand creation through massive and sustained financial literacy campaign is a challenge.
- Weak contract enforcement hinders financial services provision in the country. According to Doing Business 2011 (World Bank & IFC, 2011) "an average of 30 procedures, 730 days and costs amounting to 142.5% of the value of the contract are required to enforce a contract. The country ranks poorly in this area both regionally and internationally. As a result of these factors, CBs demand very high collateral rates, often in excess of 100% of

loan value". Lack of ownership rights of land hinders the use of the land as collateral.

- The affordability, suitability and availability of various financial services for agricultural operation by small farmers pose challenges. They need production credit, agro-insurance, savings services, warehouse receipts, term loans, overdraft, etc
- Specific regulations governing mobile banking services were reportedly being drafted by a Task Force in BOM and expected to be completed in 2014. A second mobile banking operator, M-Pesa was licensed in 2012, after M-KES in 2009. However, mobile phone penetration continues to be low. Besides the mobile banking operators, BOM, DNPDR, AMOMIF and NDWA could play useful roles in popularizing mobile banking.
- The IMF report referred to above observed that rural areas away from Maputo remain underserved but states the progress made as follows: "The IMF observes that with the current robust economic growth scenario, coupled with very moderate inflation of only 4.5% (year-end), there is significant scope for much enhanced rural finance institution–building". An electronic payment network has been set up, its scope for deepening and efficacy are affected by lack of such infrastructure in rural areas.
- Under the multi-donor framework of PAFIR it was expected initially that, with long term GTZ support, the microfinance apex organization AMOMIF would play a leading role in coordinating and training for the emerging rural microfinance sector in Mozambique. In reality, AMOMIF could not fulfil the expectations and activities planned with AMOMIF in the lead had to be scaled back. AMOMIF needs to be reengineered to play the expected role.
- Consumer protection legislations and regulations in the country are weak, disjointed and not effective. Statutory provisions are deemed necessary for creating an effective regime for protection of consumers of financial sector, intensifying consumer education in banking sector and putting in place codes of standards in financial services.
- Strengthening policy, legislative and regulatory framework, continuing political commitment to rural finance, innovations in financial products and services, deepening financial inclusion, incentives for rural finance and rural infrastructure development are some of the areas which warrant sustained support, effort and attention.

3.2 Recommendations

The following recommendations are made for overall development of RF Policy in RM:

3.2.1 Strengthening of supervision

BOM should initiate steps to enhance risk-based supervision. It was envisaged that the country would migrate to Basel II by 2014. The regulator should aim at enforcing their [banks] full compliance with Basel Core Principles of supervision and to put in line a risk-based credit system. BOM's prudential regulation pertaining to loans and advances should be made internationally comparable.

3.2.2 Integration of donor interventions to build convergence

The World Bank has been supporting the country for development of consumer protection measures, credit reporting, branchless banking, mobile banking, payment system and insolvency frame work. These measures involved BOM's participation in the whole range of interventions. IMF has been, inter-alia supporting policy development and implementation of Deposit Insurance, payment systems, etc. IFAD has been implementing RFSP. It may be necessary for all donors to move forward in a healthy and constructive collaboration for expansion and deepening of financial inclusion. In the *Making Access Possible [MAP] programme,* Mozambique has received a UN award for making donors work together [UNCDF, FIN Mark Trust, IFAD and Centric]. This approach should be nurtured and sustained.

3.2.3 Setting up Credit Reference Bureau

BOM has drafted legislation for the creation of a private credit Reference Bureau and facilitating compilation of information on current/past borrowers. The draft regulations pertaining to regulation of credit registry bureau were being evolved through public consultation process. The regulation is intended to reduce the cost of information-building and improve access to finance. It may be worthwhile to integrate all financial institutions [regulated and non-regulated] as well as positive and negative information–reporting in the system.

The measures needed for strengthening a credit reporting mechanism are as under:

- Credit reporting should be subject to appropriate oversight with sufficient enforcement authority;
- The credit reporting system should generate accurate, timely and adequate data. The system should maintain high standards of reliability, security and confidentiality;
- The overall legal and regulatory framework should be clear, predictable, neutral and supportive in the interest of consumers; and
- The credit registrars, regulations and association of financial institutions should take recourse to a sustained campaign to educate the customers about their rights and the consequence of credit history.

3.2.4 Developing consumer protection legislative framework

- The constitution of Mozambique enshrines the following consumer related provisions as fundamental rights: a) Right to quality in goods and services they consume; b) Right to education and information; c) Right to the self-affording of consumer's economic interests and d) Right to reparation of damages.
- The law on Credit Institutions and Finance Companies envisages obligations in terms of business conduct on the part of banks and other credit Institutions and Finance Companies [IFCs]. The consumer protection laws and other related notices determine their obligations to customers. MF regulations, 2004 define the frame-work for MF operators. The four categories of institutions include credit and savings general banks, rural

financial banks, economic banks and saving postal banks, all of which are deposit-taking institutions and as such, are governed by prudential regulations. Other MF operators include savings and credit organizations [member's deposit], micro credit operators and deposit intermediaries which come under minimal supervision, particularly reporting. The Notice 10/2007 stipulates higher compulsory reserves for FIs and MFIs established in rural areas and Decree 54/2004 envisages reduced capital requirement for the MFIs with a view to promoting financial services in rural areas. The positive impact if any, of the above relaxation in financial inclusion in rural areas needs to be assessed to showcase the benefits of differential regulations in RF. While the micro banks and credit co-operatives undergo full-scale prudential supervision, the micro finance operators are required to register with BOM and comply with reporting framework for data-base and as such, no supervisory oversight is ensured by BOM for them. In the absence of supervisory oversight, it is necessary to strengthen self-supervision of these institutions for facilitating orderly development of RF.

3.2.5 Integrating financial education initiatives

Financial education/literacy initiatives in the country include financial education campaigns of Bank of Mozambique and Social Communication Institute [CSI], savings campaigns of DNPDR, BOM, AMB and MOMIF, Financial Literacy programme of UNCDF, UNDP & Building an Inclusive Sector in Mozambique [BIFSMO], Price transparency in MF by Micro finance transparency/DNPNR, financial literacy strategy of AMOMIF and GIZ, Business skill and financial literacy for MFI clients under Economic Rehabilitation Support Fund with FARE, RFSP of IFAD/AFDB, open school for financial education under INDE, Portugal, etc. In view of enormous needs for financial literacy to enhance demand perspectives, the following measures are deemed necessary.

- To have an integrated approach and to bring about integration/ convergence among all the interventions such as those mentioned above for a better impact;
- A national survey of financial literacy needs and effort may be conducted for evolving a systematic and long term and medium term strategies;
- Different Communication Channels [both traditional and modern] should be used for the campaign in rural areas and
- Financial education tools and instruments suited to various categories of clients to be applied for customers of banks, MFIs and co-operatives may be evolved for wider application.

3.2.6 Strengthening Payment Systems

With IMF and KFW assistance, the payment and settlement system is being strengthened. The following measures are very critical in this regard

- Putting in place an enabling payment and settlement law and policy environments;
- Creating and implementing an oversight/supervision mechanism; and
- Setting up a grievance redressing mechanism.

3.2.7 Participatory approach to implementing FSDS 2012-21

Efforts should be directed to fulfil the objectives of the Financial Sector Development Strategy (FSDS) 2012-21 in a collaborative approach among the financial institutions and development agencies, to increase access to finance. The economy-wise structural impediments to financial intermediation that limit the number of credit-worthy clients and increase the costs and risks of providing credit and financial services in the rural areas should be identified and addressed.

3.2.8 Institutional Strengthening for Policy Development in RF

The following key institutions are expected to play major roles in shaping and developing policies in rural finance and as such, should be strengthened for faster and more effective policy reforms.

3.2.9 Bank of Mozambique

The BOM is vested with power to issue norms and decrees regulating financial sector and is responsible for their enforcement. While the department of Banking Supervision undertakes supervisory activities, the Department of Strategic Planning, Communication and Image, handles consumer-related issues. The Central Bank's objectives include guiding credit policy to promote country's economic and social growth and development and 'disciplining banking activity'. Considering its critical role in the financial sector, the capacity of BOM in regulation and supervision of the rural finance institutions [RFIs], as well as in financial education, needs to be strengthened.

3.2.10 National Directorate for Promotion of Rural Development [DNPDR]

The DNPDR is working under the authority of the Ministry of State Administration [MAE] for the promotion and development of micro finance from 1997 and rural finance since 2004. It has the most crucial role in framing legislations, policies and implementation strategies for orderly development of micro finance and rural finance including micro insurance. Their institutional capacity by way of manpower development, HRD measures and process re-engineering should be given focus for RF policy development.

3.2.11 Association of Mozambican Banks (AMB)

The Association of Mozambican Banks (AMB) established in 1999 is mandated to, inter alia, provide a common platform for discussing emerging policy issues, voice the issues before the policy-making bodies and bring about awareness among all stake holders on relevant issues including consumers' rights and obligations. The AMB had issued a code of conduct for its member banks in 2006 for voluntary application to customers. The AMB's capacity - financial and organizational needs to be strengthened to enable it to assume a larger role in capacity building efforts, professional enhancement of HR in banking industry as well as policy refinement and proper implementation of RF policy.

3.2.12 Mozambican Association of MF Operators [AMOMIF]

The AMOMIF was set up in 2007 for promotion of MFI members. Its organizational capacity and interventions are very limited. It should play a more vibrant role in creating a better policy environment for the micro finance sector, on the lines of its counterparts in Ethiopia and Uganda. It should ensure compliance to the voluntary code of conduct among the members MFIs. Thus, its organizational capacity needs to be strengthened and its activities should be intensified in the areas of training, financial literacy, policy-oriented studies and dissemination and policy advocacy.

3.2.13 Consumers Association / Consumer Institute

A law has been enacted to set up the consumer Institute as a public authority with powers to promote consumer rights, protection policy and to co-ordinate measures pertaining to customer protection, information and education and to support consumer organization. There should be proper delineation of functions in the above regard with Bank of Mozambique. Thus, the new institute, if properly put in place can play a critical role in rural finance development.

Appendices

Appendix 4.1 Study Questionnaire

1) Who are you? (Country Project Officer, Country Program Manager, senior Policy Adviser, PTA, Policy researcher, etc).

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2) In which country are you working?

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3) Using the format given below, please name IFAD-supported projects in your country, segregating those in operation and the completed ones.

Project no.	Project title	Project period	Project's broad components

4) According to you which are the most successful IFAD's intervention in your country? Please specify reasons.

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5) Were there any major policy issue(s) pertaining to the project's implementation in your country/ESA?

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6) If yes, what did the Government, regulatory agencies &other policy-making authorities do to resolve and subsequently improve the project's implementation. (Please mention the project, policy constraints and the improvement made as indicated in the table below)

Project name	Policy constraints	Changes/improvements made

7) What methodology/approach was adopted to change/develop the *relevant* policy?

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8) Have there been any separate documentation done on new policy introduced, policy issues resolved and/or policy refinement/development contributed under the project implemented? If so, specify.

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9) Do you have any separate institutional mechanism in the project framework for review, debate, resolution &dissemination of policy issues? If so, specify.

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10) Was regulation and supervision of financial services institutions embedded within the Rural Finance Project as core component? If so, outline major interventions effected for improvement in regulatory &supervisory policy?

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11) How has regulation and supervision of financial services embedment in the Rural Finance Project been helpful in policy reforms in financial sector?

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12) What are the difficulties faced by IFAD in pursuing with policy-making authorities/promoting innovative policy framework?

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13) What could be the best/most feasible ways of bringing about necessary policy changes/reforms for a donor agency?

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14) Are there any seminar/ workshop, training, sensitization, exposure programmes which are organized for stake holders' capacity to look into policy issues/ explorations as part of project implementation? If so, cite a few models.

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15) (a)What are the means adopted for dissemination of information/experience in policy issues at various levels including grass root level?

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(b)In your project, has there been a participatory approach as a method in making policy decisions? If so, cite instance(s)

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16) Is there any exchange forum(s) put in-place in your country/ESA for projects to exchange knowledge/experience? If so, how effective is the forum(s)?

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17) Is there any institution(s) in your country which can be banked upon for knowledge management in policy issues pertaining to project themes of IFAD? If so, give details.

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18) (a) Identify five major IFAD's contributions in policy areas/issues in your country?

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(b)Give brief outlines of the above identified policy areas/issues.

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(c) Do you think any of the above is/are best practices/innovative which can be replicated in other countries?

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19) Name five major unresolved policy issues (theme-wise) hindering project implementation in your country?

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20) Would you advocate for policy development in core areas of IFAD support framework in your country/ESA? Give reasons for your answer

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21) Do you have any other input having relevance to IFAD's policy contribution in your country/ESA?

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Appendix 4.2. References

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