Policy brief
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Achieving greater financial inclusion in Mozambique

Challenges and the way forward

In brief

- This brief takes stock of the studies presented at the *IGC workshop Financial Inclusion in Mozambique: Interoperability and Literacy* and subsequent discussions, and presents three main policy recommendations.
- The authors emphasise the importance of the Central Bank not giving in to the temptation to mandate interoperability. Instead, it should remain flexible and ready to adapt to future innovations and revealed demand for specific combinations of services.
- The brief also suggests that mobile money coupled with business management training have the potential to close the gender gap in microenterprise performance, showing the value of promoting these two instruments together.

Introduction

According to the latest data from the Bank of Mozambique, only 36% of adult Mozambicans have a bank account and this figure barely reaches 40% when mobile money accounts are included. New ways to access bank accounts, mobile money – and financial technology ('fintech') instruments in general – have great potential to foster financial inclusion, giving people the long-term ability to deal with economic shocks and smooth their income, as well as improve their saving possibilities. Promoting access to financial services, both for individuals and businesses, is vital to ensure that economic growth in Mozambique is inclusive.

International researchers and Mozambican policymakers, as well as representatives of the private sector and civil society, gathered in Maputo on 20th September 2017, to discuss new IGC research results on financial inclusion at the workshop entitled *Financial Inclusion in Mozambique: Interoperability and Literacy*. The event was co-hosted by the Central Bank of Mozambique and featured presentations from Prof. Sandra Sequeira (London School of Economics), Prof. Steffen Hoernig (Universidade Nova de Lisboa), and Prof. Esselina Macome, Executive Director of the Financial Sector Deepening Program in Mozambique (FSDMoç).

This brief takes stock of the studies presented at the workshop and the subsequent discussions, and presents three main policy recommendations. First, it emphasises the importance of the Central Bank not giving in to the temptation to mandate interoperability, i.e. forcing mobile money operators to become connected to each other and to the banking system. Instead, the Bank of Mozambique should remain flexible and ready to adapt to future innovations and revealed demand for specific combinations of services. Finally, the brief suggests that mobile money coupled with business management training have the potential to close the gender gap in microenterprise performance, and therefore it is worth promoting these two instruments together.

Context – Almost 60% of Mozambicans are financially excluded

Despite being among the world's fastest growing economies of the past two decades, with massive foreign investments fuelled by natural resource discoveries, Mozambique still has a very high poverty rate – 46.1% in 2014-15.[1] Moreover, a large share of the jobs in Mozambique are informal. Even in the capital and biggest city, Maputo, only around 50% of employment is in the formal sector, while this percentage is below 10% in Zambézia and Nampula, provinces with a large rural population.[2] Informal salary and other payments, incomplete or missing documentation, low levels of income, prohibitive distances to the nearest financial services point, high costs of account maintenance, and transaction fees are all factors that contribute to the exclusion of the average Mozambican from the formal banking system.

1. INE, Inquérito aos Orçamentos Familiares (IOF) 2014-2015.
2. Toews and Vezina, 2017.

What are the characteristics of the 60% of the Mozambican population estimated to be financially excluded? A recent study by FSDMoç describes the following characteristics of the unbanked population:

- 75% live in rural areas, where only 11% of bank branches are located.
- 70% receive a monthly income below 5,000 Meticais.
- 51% work in agriculture (a seasonal activity) and 38% depend on other activities. Only 4% are in salaried employment.
- The majority (62%) only have primary school education.
- "Bank" is the most known financial term by unbanked adults (46%). Other terms are known by less than 19% of the unbanked population.
- Only 42% of those living in rural areas have an ID, few have electricity (2%) or water bills (1%) as a proof of residence to open a bank account.
- To reach a financial institution, unbanked adults face constraints related to the cost and the time required to get there. In general, it takes very long to reach a bank, an ATM, or a financial institution office, and often a means of transportation is required, which increases the costs even further.
- The assets generally owned by unbanked adults do not meet bank requirements for opening an account. Radio (46%), mobile phones (44%), and bicycles (40%) are the assets most owned by unbanked adults. The houses owned by unbanked adults tend to be informal constructions, which cannot be used as collateral.
- Despite the risks the unbanked population are exposed to, insurance is not a common coping mechanism for them. They sell their possessions, use their saving, or borrow money to cope with unforeseen events.

Given these characteristics, mobile money can potentially broaden and deepen financial inclusion in Mozambique, increasing financial resilience and ultimately lifting people out of poverty. However, mobile money take-up is still quite low, especially when compared with other countries like Kenya and Tanzania. Partially this has to do with the fact that only 44% of the financially excluded own a mobile phone, while this percentage is substantially higher for those who already have access to a bank account (82%).[3] The reasons for low take-up also have to do with low levels of financial literacy and with the limited capacity of the network of mobile money agents, particularly in Central and Northern Mozambique. On top of these factors, the three mobile money providers currently operating in Mozambique are neither interconnected between themselves, nor with the banking sector – the so-called interoperability issue – and this reduces the potential network effects of subscribing to a mobile money wallet.

The recent IGC workshop on financial inclusion tackled two of the main challenges related to expanding the access to financial services in Mozambique: the absence of interoperability and the low levels of financial literacy. The debate among researchers and stakeholders from the public and private sector revealed three key take-home messages.

3. Bank of Mozambique monthly bulletin, August 2017.

Key message 1: Interoperability could play a crucial role in fostering financial inclusion but it should not be imposed.

The two main types of interoperability that matter most in the current Mozambican context are: (1) interconnected mobile money wallets and (2) mobile money wallets connected to the banking sector. Full interoperability would entail both of these being in place.

Interoperability between mobile money wallets would certainly contribute to increased take-up in Mozambique. If mobile money operators were connected to each other, the size of the network would increase and customers could transfer money more easily. One of the key services for the average Mozambican is being able to send remittances. With interoperable mobile money wallets, an urban worker could send remittances to his extended family in remote rural areas even if they use a different mobile money operator. The most widespread mobile operators in the big cities, Vodacom and Mcel, have limited coverage in rural areas in the centre and north of Mozambique. The recent entrant Movitel, on the other hand, has much more extensive coverage in rural areas but is not being used much in urban contexts.

Interoperability between mobile money wallets and the banking sector is a recent development, and even traditional banks are not yet fully interoperable among each other in Mozambique. Bank transfers are possible between all accounts, but the national switch SIMO – the national payments platform created in 2011 – does not yet include all the banks, with some of the main actors still using their own ATM/POS payments infrastructure, not connected to SIMO. However, some progress has been made to date: as of late 2017, the SIMO network includes most of the major commercial banks (excluding only Millennium BIM, UBA, and Ecobank) and all the mobile money operators. What is still missing is the existence of a specific agent-to-agent mobile money transaction platform, allowing mobile money wallets of different operators to 'talk to each other' through SIMO.

This 'dialogue' between mobile money operators has not emerged spontaneously yet also because their business models seem to differ. According to information provided by market players, while mKesh has more clients, these do not keep e-wallets but rather tend to cash out money balances. At M-Pesa, on the other hand, clients are actively encouraged to maintain e-wallets and in November 2017, its CEO stated that customer numbers increased by 58% to 3 million users.[4] Moreover, the agent network of M-Pesa is significantly more developed than that of mKesh (more than 12,000 agents for M-Pesa and about 4,000 for mKesh). At present, mobile operators see mobile money as a way to capture more clients and are therefore not very interested in interoperability, even if in the medium-run it would be better for all operators. In other words, the mobile money operators have not yet reached a mature state of development where interoperability becomes a growth factor rather than a distraction.

4. https://www.mobileworldlive.com/featured-content/money-home-banner/m-pesa-users-up-50-in-three-markets-vodacom/

Given this situation, Hoernig and Bourreau (2016) suggest that, although tempting, mandating interoperability at the current level of maturity of the Mozambican market would be risky, as it may undermine competition for growth and investments. In this respect, a recent initiative by FSDMoç created a forum where mobile money operators and commercial banks could exchange ideas and collaborate with the objective to come up with a set of rules to facilitate interoperability in Mozambique. The discussion is currently ongoing and a final draft of the agreement between commercial banks and mobile money operators will be discussed with the whole industry at the beginning of December 2017.

What would be the role of the regulator, i.e., the Central Bank, in such a context? The workshop discussions highlighted that the Central Bank should play an active role in encouraging agreements between mobile money operators while defining clear 'rules of the game' and promoting interoperability with the banking sector. Creating regulatory certainty is essential for strengthening incentives for further investments and commercial agreements between operators. The recent shift in attention from interoperability between mobile money operators only, to one between these and commercial banks is a case in point. Market participants have understood that the benefits from interoperability with banks are high – more liquidity in the mobile money system, larger reach for bank customers' transactions. The initiative of FSDMoç to bring all stakeholders to the table and agree on how to put this interoperability into practice is timely and in the end may also provide a platform for mobile money operators to interconnect between themselves.

Finally, the Central Bank should try to establish the right balance between financial oversight and the facilitation of transactions. In order to achieve the latter, the Bank needs to identify for which services there is greater demand and take an active role in incentivising them, possibly also by promoting the completion of SIMO, the national switch. On the other hand, financial oversight might be easier to achieve by simply setting frequent enough reporting requirements.

Key Message 2: Following constant innovation in the sector is the only way to assess the right regulatory mix.

All over the world, financial technology ('fintech') has been reshaping the financial services industry. Mobile money in particular has been one of the fastest innovations to spread in the digital era according to Prof. William Jack (Georgetown University) at the recent 'Mobile Money Conference' held at the London School of Economics. The challenge with these types of innovations is to get the right regulatory mix in place. This is key to keeping standards high, avoiding large-scale frauds that can shake both investor and consumer confidence, and providing rules to make business model and expansion decisions clearer.

Mozambique has proved a fertile environment for other innovations lately. As was pointed out during the discussion, a new platform called Bibimoney has recently been launched aiming at facilitating domestic and international money transfers between different telephone operators. The service should work through a patented

SIM skin, a thin membrane that attaches to any SIM card and enables mobile money transfers through a partner bank – yet to be identified. Hybrid financial instruments like these are likely to grow in the Mozambican market in coming years, thereby creating de facto interoperability between mobile operators and banks, and a subsequent regulatory grey area. The question is what kind of regulatory treatment would be best for such innovative instruments, something more similar to a bank account or to a mobile money wallet? The discussion around this topic revolved around the need to balance adequate risk management against a flexible approach that encourages innovation.

Fintech instruments have huge potential to foster financial inclusion by facilitating services that already exist but only on an informal basis. This is the case of the saving groups – *Xitique* in the local language – where members pool money for a selected period of time. In this way, financially constrained individuals become able to invest in their business or to cope with unexpected events. The Mozambican start-up UX is already piloting a mobile platform – called Soma – that proposes to record information on the groups, including details of individual savers, how much they are saving, and their geographical location, with the ultimate aim to connect the groups to the wider financial system.[5]

A big question is whether these new fintech instruments would be able to break the cash in-cash out vicious circle that currently characterises Mozambique, like many traditional (mainly rural) societies. In a highly cash-based economy, people tend to use instruments like mobile money just to seek immediate cash-out instead of keeping the money circulating electronically.

In this context, the conclusion of the workshop discussions were that the only way to assess the right regularity mix is to be flexible and ready to adapt to future innovations and revealed demand for specific combinations of services.

Key Message 3: Mobile money and financial literacy together have the potential to reduce gender inequality.

Kenya's pioneering example is often cited to show how providing access to mobile money could also help lift women out of poverty, offering them the freedom to use funds to pay for relevant services like school fees, rent, and bills straight from the mobile phone and without their husbands interfering. Specifically, results from Suri and Jack (2012) show that female-headed households, in an area with an increase in M-Pesa agents, were more likely to have higher financial savings and change occupations from farming to business and retail sales.

A recent study by Batista, Sequeira, and Vicente (2017), presented at the workshop, also finds that mobile money might have the potential to reduce gender differences in economic performance among micro-entrepreneurs. In the study, providing

5. Financial Times, November 2017.

vendors in urban markets of Maputo with a combination of access to a mobile money account and business training substantially improved their level of financial literacy and performance, and helped the female vendors reach almost the same levels of economic performance as their male colleagues. Another benefit of giving access to mobile money is that it fostered savings for both male and female vendors.

What emerged clearly both from the presentation of the study and the subsequent discussion, is that these positive results could not have been obtained without a significant investment in business training. In particular, what mattered for the success of financial literacy modules was making sure that the training language was appropriate to the target audience. This is corroborated by the recent FSDMoç study showing that only the word "bank" is a relatively well-known term (46%) among unbanked Mozambicans, while other basic terms like "interest rate" or "ATM" are known by less 19% of them.[6] Illustrated manuals explaining basic business practices and motivated trainers able to explain complex ideas in simple ways in local languages are some of the tools that proved useful in this respect.

Observed gender disparities in financial literacy can be traced further back to uneven educational attainment across genders. Although a high percentage of Mozambican girls enroll in primary school (94%), more than half drop out by the fifth grade, only 11% continue to study at the secondary level, and just 1% reach university (USAID 2017). Moreover, one in two Mozambican girls gets married before age 18 (UNICEF 2014). Without tackling this very significant gender disparity in education, the results of efforts to promote across-the-board financial inclusion will be constrained.

Policy recommendations

In July 2016, Mozambique launched its Financial Inclusion Strategy, with the aim to increase access to financial services to 60% of the population by 2022. However, this ambitious target can only be achieved if the regulator, the private sector, and civil society join forces to understand the main barriers hampering financial inclusion in Mozambique and make a joint effort to remove the most important ones. The recent workshop held in Maputo on Financial Inclusion in Mozambique constitutes one further step in this direction.

Three main recommendations emerged from the workshop's presentations and subsequent discussions, namely:

1. The Bank of Mozambique should not mandate interoperability, given that the market has not yet reached maturity in the country. Instead, it should lay out clear 'rules of the game' and try to establish the right balance between financial oversight and the facilitation of transactions.
2. The Bank of Mozambique should also be flexible and ready to adapt to future innovations and revealed demand for specific combinations of services, such as

6. FSDMoç, 2016.

interoperability between mobile money operators and banks.

3. Specific interventions aimed at gender empowerment should emphasise the importance of providing basic business management training and financial literacy instruments to promote successful female self-employment.

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