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Analysis of regulatory framework for MSME lending in mozambique

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Introduction

Introduction

Introduction:

- This report has been commissioned by USAID SPEED following the **difficulties encountered by the MSME Resilience Fund** to lend to women-run businesses and youth entrepreneurs.

- One of the explanations for the challenges faced by GAPI in catering to women and youth is the **lack of physical collaterals** that prevents GAPI from lending to many financially excluded customers. The issue around collateral is highly dependent on the regulatory framework underpinning lending activities

- The report is focused on those **regulations that are directly impacting lending activities** for under-served segments of the population. It does not examine measures that could foster financial inclusion at a broader level (e.g. savings and transfers) which have been already well documented in previous studies.

Methodology:

- The research work underpinning this report has been carried out remotely.

- 19 stakeholders interviewed: a mix of local institutions and international donors

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Current Framework

Current Framework

Credit Institutions & Microfinance Operators

2 main pieces of legislation: i) Law 20/2020 and ii) Decree 50/2024

Credit Institutions (collect deposits and supervised by BdM) (**)

The law defines **three types of credit institutions**:

i) banks
ii) microbanks
iii) credit cooperatives

Microfinance Operators (only microbanks and large credit coops are supervised by BdM)

Decree 50/24 establishes four “microfinance operators”:

i) microbanks;

ii) credit cooperatives;

iii) organizações de poupança e empréstimo (**savings and loans organizations**) (*)

iv) operadores de microcrédito (**microcredit operators**) (*)

(*) cannot collect deposits

Current Framework

Credit Institutions & Microfinance Operators

Finance companies (no deposits collection but still supervised by Bdm)

Examples:
i) payment service firms
ii) venture capital firms,
iii) factoring/ leasing companies
iv) investment companies

Other alternative finance instruments have been left out by law 20/20. **For instance, crowdfunding – be it for equity or debt - is currently not regulated in Mozambique.**

BdM Sandbox

BdM did not receive many applications from credit-focused start-ups.

The BdM guidelines are quite conservatives when it comes to defining the scope of the sandbox and the sectors in which start-ups can operate

3 Findings

Findings

Banks and other Credit Institutions

Banks and other credit institutions are required to follow a set of international banking regulations (Basel II)

In particular, when lending to borrowers credit institutions need to:

- Set aside capital buffers for credit risks
- Adopt provisioning policies based on expected credit losses

Basel II

- Commercial Banks
- Micro Banks
- Investment Companies
- Financial Leasing Firms

Outside Basel II

- Credit Cooperatives
- Microcredit Operators
- Savings and Loans Organizations

Findings

Banks and other Credit Institutions

Law 20/20 gives BdM the **option of moving away from its “one size fits all” approach** and craft tailored prudential limits according to the typology of institution supervised.

However, it seems that **BdM chose to adopt a conservative stance** on this matter as it recently decided that financial leasing companies – which typically do not represent a systemic risk to the financial industry – shall also be subject to Basel II loan provisioning requirements.

Other elements that discourage credit institutions to lend to MSMEs:

- Reduced options on **typology of guarantees** that can be used as collaterals
- **High liquidity (25%) and reserve requirements (39%)**
- Impossibility of storing data on cloud-based platforms
- Maximum NPL ratio (5%) set by fiscal authorities

Findings

Banks and other Credit Institutions

No framework for digital lenders
Fintechs are briefly mentioned in Law 20/20, however no specific framework is in place at this stage for fintechs active in the digital lending space.

Absence of an ad-hoc regulator for Alternative Finance
Unlike other markets (e.g. USA, UK Nigeria, Ghana) where alternative finance is regulated by an ad-hoc regulator, in Mozambique this space is overseen by BdM, the banking regulator.

Lack of fiscal incentives to boost investments in start-ups
Angel investors and other early-stage investors in Mozambique do not benefit from fiscal incentives when they invest in start-ups. Examples of other countries such as the UK and South Africa demonstrate that fiscal incentives are key to promote investments in risky ventures.

4 Comparative Analysis

Comparative analysis

Credit institutions

Less stringent loan provisioning policies

Mozambican provisioning policy for MSME lenders is significantly more restrictive than in other countries.

Provisions for classified assets (% of loan) - SSA examples					
Classes of risks	I	II	III	IV	V
Mozambique (other types of guarantees)	5	15	40	75	100
Mozambique (no guarantees)	5	15	50	85	100
Nigeria	1	5	20	50	100
Kenya	1	5	25	75	100

Sources: (I) Revised regulatory guidelines for MFBs in Nigeria; (ii) Deposit-taking MFIs Regulations 2008, Central Bank of Kenya

More flexible collateral requirements

Nigeria and Ghana have a more flexible list of collaterals than Mozambique. Microfinance Banks in Nigeria are allowed to include group guarantees as well as third party guarantees as part of their loan collaterals. Ghana recently allowed banks as well as savings and loans companies to include motor vehicles and plant and equipment (P&E) as part of the calculation of the loan to value ratio.

Comparative analysis

Alternative Finance

The country needs an open banking framework

There is currently no open banking regulation in Mozambique which is much needed to encourage new entrants into the market, including fintech startups that are often more agile and innovative than traditional financial institutions. Australia, Hong Kong and Singapore are prominent examples of open banking or open API frameworks focused on API standardisation. In Africa, Nigeria's Central Bank (CBN) issued a Regulatory Framework for Open Banking in 2021.

Examples of crowdfunding guidelines in Nigeria and Ghana: Ghana has just elaborated a draft law.

Strengthening framework for digital lenders

In Kenya, the Central Bank of Kenya Act was amended in 2021 to allow CBK to supervise the operations of digital lenders. Should Mozambique adopt a similar framework, it would pave the way for international digital lenders to set foot on the country under a clearly established set of rules.

5 Recommendations

Recommendations

Setting more flexible provisions for non-systemic credit institutions

This, among others, should include:

i) lower provisioning limits for under-collateralized MSME loans;
ii) lower liquidity and reserve requirements than credit institutions of systemic importance; and
iii) more flexible guarantees (e.g. a third party guarantor).

Improving the credit infrastructure for alternative finance players

In particular, the country needs :

i) an open banking law;
ii) a crowdfunding law; and
iii) a legal framework for digital credit providers.

6 Conclusions

Conclusions

The regulatory framework for MSME lending in Mozambique is quite recent, yet quite conservative.

The legislator and the regulator have not embraced the flexible and innovative approaches adopted in other countries which are experiencing the same issues in relation to access to finance for MSMEs.

A clear and stable regulatory environment that embrace innovation whilst mitigating systemic risks is a pre-condition to spur MSME lending in Mozambique.

Bringing forward examples from other countries, this paper advocates for more **relaxed provisions for non-systemic financial intermediaries** as well **as innovative regulatory measures to boost alternative finance** as a way to increase MSME lending in Mozambique.

THANK YOU