



USAID
FROM THE AMERICAN PEOPLE



USAID/MOZAMBIQUE SPEED PROJECT

Regulatory Framework Assessment for Financial Institutions in Mozambique

SPEED Technical Portfolio: Private Sector Development and Access to Finance

December 2024

Analysis of Regulatory Framework for MSME Lending in Mozambique

Supporting the Policy Enabling Environment for
Development (SPEED)

Report Author(s): A. Didoni, E. Fone

Submitted: December, 2024

Contract No. 72065621F00004

Contract/Agreement Period: March 22, 2021 to August 7, 2025

COR: Nelson Guilaze

Chief of Party: Kate Heuisler

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS	4
EXECUTIVE SUMMARY	5
INTRODUCTION	6
METHODOLOGY	6
AN OVERVIEW OF THE CURRENT REGULATORY FRAMEWORK	6
FINDINGS	9
COMPARATIVE ANALYSIS	13
RECOMMENDATIONS	16
CONCLUSIONS	17
ANNEXES	18
ANNEX A: LIST OF STAKEHOLDERS	18

ACRONYMS AND ABBREVIATIONS

API	Application Programming Interface
AT	Autoridade Tributária de Moçambique
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
BDM	Banco de Moçambique
CAR	Capital Adequacy Ratio
CRAR	Capital-to-risk weighted assets ratio
EIS	Enterprise Investment Scheme
FGM	Fundo de Garantia Mutuária
FI	Financial Institution
IFAD	International Fund for Agricultural Development
LTV	Loan to Value
MSME	Micro, Small and Medium Enterprise
NBFI	Non-bank Financial Institution
NPL	Non-performing loan
PCG	Partial Credit Guarantee
REFP	Rural Enterprise Finance Project Fund
SEC	Securities and Exchange Commission
SEIS	Seed Enterprise Investment Scheme
SME	Small and Medium Enterprise
USAID	United States Agency for International Development
WBG	World Bank Group

EXECUTIVE SUMMARY

This paper is an assessment of regulations that are directly impacting lending activities for under-served segments of the population in Mozambique. It is targeted to donors, regulators as well as, more broadly, key decision-makers in the finance space in Mozambique that will need to take informed decisions on how to modernize the regulatory framework for MSME lending in the country to allow financial intermediaries to increase outreach while mitigating risks.

The document takes an in-depth look at key regulatory provisions in both the traditional finance space (e.g. banks, microbanks, cooperatives) as well as in the alternative finance space (e.g. finance companies). When it comes to banks and other regulated credit providers, Mozambique has a solid regulatory framework based on international banking standards. This has the advantage of protecting depositors but, at the same time, it leaves regulated players with little room to innovate, particularly on the lending side. The need of respecting Basel II provisions such as minimum capital adequacy ratio limits and minimum provisioning requirements are significant disincentives for all Mozambican regulated financial intermediaries to lend to under-collateralized segments of the economy such as micro, small and medium enterprises operating in the informal sector, women-entrepreneurs and youth. However, 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, which could open an opportunity to introduce less stringent provisioning rules for non-systemic lenders. High reserves and liquidity requirements as well as the impossibility of using cloud-based core banking systems also add to the complexities of smaller intermediaries (e.g. microbanks, finance companies) preventing them from injecting liquidity into the system and boost innovation.

The regulatory framework for alternative finance also needs improvement. The creation of a Sandbox for start-ups has not been accompanied by the creation of a full-fledged environment to foster innovation in the MSME lending space which shall include an open banking framework and clear rules for digital lenders, including crowdfunding platforms. While venture capital is regulated as part of law 20/20, tax incentives to attract retail investors and asset allocation targets for pension funds are needed to boost investments in promising Mozambican start-ups.

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. Set up in 2023 by GAPI, a finance company, with the financial support from USAID SPEED, the MSME Resilience Fund has the objective of providing loans to underserved clients across Mozambique. This includes businesses run by women and youth which are traditionally excluded from formal financial services, particularly from credit. After 1.5 years in operations, the MSME Resilience Fund has under-performed on its objectives both in terms of women-owned companies as well as youth run businesses. At the end of July 2024, GAPI reported to have disbursed 231 loans to women and 127 loans to youth, which corresponds to 36% and 30% of the revised objectives set by USAID SPEED, respectively.

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 of GAPI as well as of other Mozambican regulated financial institutions that are supported or that have been supported by donors in the past to boost financial inclusion in Mozambique.

This issue is not only relevant to USAID SPEED, which currently works with one financial institution (GAPI), but to all donors that are actively involved in promoting financial inclusion in Mozambique and that are partnering with other regulated intermediaries to deepen financial inclusion. Hence the need to carry out a broader overview of the regulatory framework for financial intermediaries engaged in MSME lending in Mozambique to pinpoint provisions that could be modified and pieces of legislation that could be added to unlock finance for those firms. The report also documents some international best practices that could be adopted to improve the regulatory framework for financial intermediaries in Mozambique.

The paper is focused on those regulations that are directly impacting lending activities for underserved 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 extensively documented in previous studies.

METHODOLOGY

The research work underpinning this report has been carried out remotely. To produce this document the consultants undertook calls with a number of key stakeholders (see list in Annex A) and examined laws and regulations on lending activities for financial intermediaries issued by the Mozambican authorities as well as by a number of peer countries.

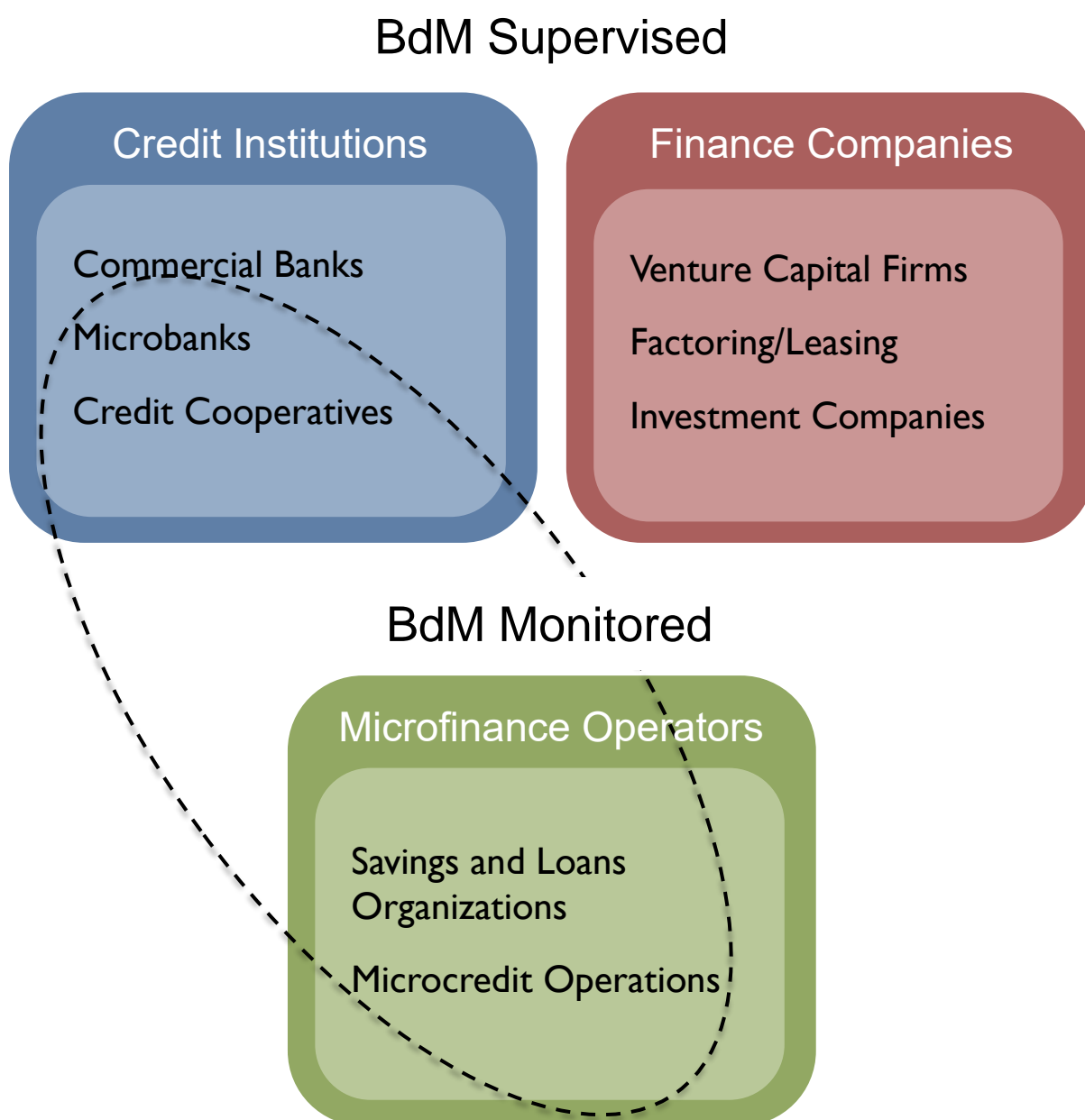
AN OVERVIEW OF THE CURRENT REGULATORY FRAMEWORK

The regulatory framework currently in place in Mozambique for banks and other financial intermediaries is quite recent. The Law governing Credit Institutions and Financial Companies (law 20/20) entered into force in March 2021, while its main decree (50/2024) was published in July 2024. Unlike other jurisdictions where alternative finance is regulated by separate frameworks, law 20/20 encompasses both mainstream finance (banks, finance companies etc..) as well as alternative finance (investment firms, venture capital, leasing, factoring etc...).

CREDIT INSTITUTIONS VS FINANCE COMPANIES

Law 20/20 classifies “**credit institutions**” (instituições de crédito) as those financial intermediaries that collect deposits. The law defines **three types of credit institutions**: i) banks; ii) microbanks and iii) credit cooperatives. Financial institutions that do not collect deposits but that are still regulated and supervised by Bdm are classified as **finance companies** (sociedades financeiras).¹ Among others, finance companies include payment service firms, **venture capital firms, factoring/ leasing companies as well as investment companies**.² Credit institutions and finance companies are authorized by BdM to provide loans and fall under BdM regulations.

The law also gives a definition of operadores de microfinanças (**microfinance operators**) and states that the functioning and monitoring rules of those operators are established by a Cabinet Decree.³



¹ Aviso n.3/GBM/2021

² Article 6 of law 20/20.

³ Article 225 of law 20/20.

Recently issued on July 11, 2024, **Cabinet Decree 50/24** establishes four “microfinance operators”:⁴ i) microbanks; ii) credit cooperatives; iii) organizações de poupança e empréstimo (**savings and loans organizations**) and iv) operadores de microcrédito (**microcredit operators**).⁴ Savings and loans organizations can only mobilize deposits from its members, up to the maximum amounts established by Bdm.⁵ Microcredit operators are credit-only institutions and are not authorized to collect deposits.⁶

Microbanks and credit cooperatives⁷ are subject to prudential supervision of Banco de Moçambique (i.e. they are assimilated to commercial banks for regulatory and supervision purposes), while savings and loans organizations and microcredit operators – which are not considered full-fledged credit institutions as per Law 20/20 - need only to be registered with BdM and are only subject to BdM monitoring instead of full supervision.⁸ Law 20/20 gives Bdm the possibility of outsourcing the supervision of microcredit operators to a third party.⁹

Decree 50/24 classifies **microbanks** into four types: i) caixa geral de poupança e crédito (savings and loans bank); b) caixa económica (economic bank); c) caixa de poupança postal (postal savings bank); and d) caixa financeira rural (rural bank). These microbanks are mainly focused on providing loans and savings products to their clients.¹⁰ Some types of microbanks are subject to additional limitations.¹¹

Decree 50/24 also states that **credit cooperatives** are normally regulated as any other cooperatives, unless their size and nature of operations indicates otherwise, in which case, they will be treated as “outros operadores financeiros” (other financial operators) and subject to applicable provisions.¹² Financial cooperatives can only disburse loans to their own members.¹³

In a nutshell, the regulatory framework in Mozambique currently allows for a wide array of financial institutions and gives BdM the authority to regulate and supervise most of those entities.

ALTERNATIVE FINANCE

On top of laying the ground for traditional financial intermediaries, law 20/20 also covers alternative finance companies. The majority of these alternative intermediaries are broadly classified as finance companies (sociedades financeiras). These includes **fund management companies, venture capital firms, financial leasing firms, factoring firms and investment firms**.¹⁴ Finance companies can only perform activities that are allowed under their specific legislation.¹⁵

Similarly to credit institutions, decree 50/2024 provides additional regulatory provisions for some categories of finance companies such as service payment companies, fund management companies and venture capital firms. For other categories - such as financial leasing and factoring firms – the regulator has published or plan to publish specific regulatory decrees.

⁴ Microfinance operators and microcredit operators are defined separately in the decree.

⁵ Article 169 of the Decree.

⁶ Article 170 of the Decree.

⁷ For smaller credit cooperatives, BdM can make an exception and exempt them for full supervision.

⁸ Articles 164 and 165 of the Decree.

⁹ Article 166 of the Decree.

¹⁰ Article 28 of the Decree.

¹¹ For instance, postal savings banks cannot give out loans using deposits collected from the public. Rural banks have to deploy at least 50 percent of their resources in rural areas, while economic banks cannot offer term deposits of a term longer than one year (Article 30 of the Decree).

¹² Article 31 of the Decree.

¹³ Article 42 of the Decree.

¹⁴ Article 6.

¹⁵ Article 7.

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. A couple of crowdfunding platforms start-ups made it to the Bdm sandbox (more details in the box below) and then, following the lack of a tailored regulatory framework, at the end of their sandbox journey, they were asked by Bdm to apply for a fund management company license.

The BdM Sandbox

In 2020, BdM approved the creation of a Sandbox to enable the creation of innovative start-ups in the finance space.¹⁶ Companies are allowed to stay in the sandbox for a limited period of time. Since 2020, only one company – a payment service provider - has received final approval to operate under full BdM regulations. 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.¹⁷ This could potentially discourage alternative finance providers to try the sandbox route to set operations in Mozambique.

FINDINGS

BANKS AND OTHER CREDIT INSTITUTIONS

Mozambique has a solid regulatory framework for banks and other finance providers based on international banking standards. This has the advantage of protecting depositors but, at the same time, it leaves regulated players with little room to innovate, particularly in the lending space. Here below, we present an analysis of the main bottlenecks identified for regulated credit institutions when it comes to MSME lending.

LENDING ACTIVITIES UNDER BASEL II

As per the current regulatory framework in Mozambique, when carrying out lending operations, banks and other credit institutions are required to follow a set of international banking regulations (Basel II) established by the Basel Committee on Banking Supervision. In particular, when lending to borrowers credit institutions need to:

- Set aside capital buffers for credit risks¹⁸
- Adopt provisioning policies based on expected credit losses¹⁹

Those provisions are universally adopted by central banks around the globe and Mozambique is no exception. However, some countries impose Basel II regulations on commercial banks, only, while others – such as Mozambique – decided that those provisions shall be respected also by non-systemic financial players such as microbanks and investment companies.²⁰ Basel II regulations in Mozambique do not apply to credit cooperatives, microcredit operators as well as savings and loans organizations as those institutions are not directly supervised by BdM.

¹⁶ The sandbox guidelines were subsequently revised in 2022.

¹⁷ Articles 4 and 5 of the Regulamento de Participacao no Sandbox regulatorio do BdM

¹⁸ Aviso n.11/GBM/2013

¹⁹ Aviso n.16/GBM/2013 which is based on IFRS9

²⁰ Article 2 of Aviso n. 3/GBM/2021

Basel II

Commercial Banks
Micro Banks
Investment Companies
Financial Leasing Firms

Outside Basel II

Credit Cooperatives
Microcredit Operators
Savings and Loans
Organizations

THE RESPECT OF THE CAPITAL TO RISK WEIGHTED ASSETS RATIO

The **provision on capital buffers for credit risks** calls BdM-supervised financial institutions to respect the so-called Capital Adequacy Ratio (CAR) also known as the capital-to-risk weighted assets ratio (CRAR). The numerator of the formula is represented by the FI's capital, while the denominator is calculated by adding the various assets and adjusting them for their associated risks. For instance, cash being risk free, it carries a weight of 0%, while municipal bonds and loans collateralized by real estate carry a weight of 100%. Riskier loans have even a higher risk weight (150%).²¹ A higher risk weight implies that a greater amount of capital must be set aside when investing in those assets, which influences a bank's decision to engage in, or avoid, certain lines of business. For example, if SME loans are assigned a higher risk weight, a credit institution may limit its exposure to this sector and divert the resources to more capital-efficient assets.

PROVISIONING FOR EXPECTED CREDIT LOSSES

Immobilizing **provisions for expected losses** means that when any financial institution supervised by BdM lends to its customers, it needs to set aside financial resources to cover for the potential losses due to non-repayment of the loans. As shown in the table below, under Basel II the risk profile of the borrower is determined by the type of guarantees that the firm/individual can offer. For clients whose loan is backed by a residential real estate and pay on time, the financial institution needs to set aside 2% of the loan value as provision. For clients without guarantees that are paying on time, the provision is 5% of the loan value. As the table below shows, in case of late payments, provisioning levels are significantly higher for clients without guarantees than for clients whose loan is backed by some type of guarantee (i.e. real estate). Therefore, loans overdue which are not backed by a collateral are significantly more expensive to serve for regulated financial institutions as the regulator is asking them to set aside higher levels of financial provisions to cover for expected losses.

²¹ Aviso n.11/GBM/2013

Min provisioning for overdue loans in Mozambique (*) (**)					
Description	Classes of risks				
	I	II	III	IV	V
Real Estate (residential)	2	5	20	50	100
Real Estate (commercial)	5	10	35	60	100
Other types of guarantees	5	15	40	75	100
No guarantees	5	15	50	85	100

(*) % of outstanding loan value
(**) Class I : < 30days; Class II: 31<x<90; Class III: 91<x<180; Class IV: 181<x<360; Class V: >360

The need of respecting both minimum CAR limits as well as minimum provisioning requirements established by the Banco de Moçambique are significant disincentives for all Mozambican regulated financial intermediaries to lend to under-collateralized segments of the economy such as micro, small and medium enterprises operating in the informal sector, women-entrepreneurs and youth.

ACCEPTABLE GUARANTEES AND LOAN TO VALUE (LTV)

The current regulatory framework in Mozambique is also quite stringent when it comes to the typology of guarantees that could serve as collateral. Options are limited to cash, liquid instruments (e.g. T-bills) as well as real estate legally registered.²² The issue being that the regulatory framework is the same for both systemically important institutions (e.g. banks) as well as for non-systemically important intermediaries (e.g. microbanks, finance companies).

On the other hand, the maximum loan to collateral value (LTV) allowed by the regulator is 100%, which is line or even higher than some other jurisdictions.²³

BDM CAN POTENTIALLY MOVE AWAY FROM ITS “ONE SIZE FITS ALL” APPROACH TO PRUDENTIAL FRAMEWORK

Law 20/20 states that the regulator (BdM) can establish prudential limits tailored to the typology of the institution supervised.²⁴ The law explicitly makes reference to **fintechs** as well as to **credit institutions and finance companies whose main activity is the development of the national economy**.²⁵ Law 20/20, therefore, 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. For instance, BdM could set up tailored provisioning policies for credit-only finance companies providing MSME loans to poorly collateralized borrowers (e.g. GAPI). 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.²⁶

LIQUIDITY AND RESERVE REQUIREMENTS FOR CREDIT INSTITUTIONS

Basel II is not the only obstacle preventing credit institutions to lend to MSMEs. Credit institutions in Mozambique are subject to very stringent liquidity ratios: 25% of total liabilities need to be placed in

²² Anexo III Aviso 11/GBM/2013

²³ Aviso 09 GBM/2018

²⁴ Article 85.2 of law 20/20.

²⁵ Article 85.2 and 85.3 of law 20/20.

²⁶ Article 9 AVISO 8/GBM/2023

liquid assets, essentially deposits with other banks/BdM or T-Bills.²⁷ On top of it, banks also need to set aside compulsory reserves: currently the ratio is 39% of total local currency liabilities. This means that 64% of credit institutions' liabilities need to be set aside with Bdm, other banks or the government and cannot be used to finance the real economy. This leaves banks and other credit institutions with only 36% of their liabilities to deploy towards their lending activity. While banks have other sources of revenues (i.e. forex operations), other credit institutions (i.e. microbanks) are suffering from having to comply with those high levels. These measures strongly impinge on the possibility of smaller intermediaries to disburse loans to MSMEs.

DOMICILIATION OF DATA CENTERS

Mozambican credit institutions and finance companies cannot store data on a cloud-based core banking system. As per the current regulatory framework, data needs to be physically stored in Mozambique.²⁸ Cloud-based systems are leaner, cheaper and allows for easier integrations with mobile banking solutions which is an asset for expanding financial inclusion. This provision is particularly onerous for smaller institutions (e.g. microbanks, finance companies) that are looking to innovate and expand their clients base.

THE MAXIMUM LIMIT TO NPL RATIO ESTABLISHED BY FISCAL AUTHORITY

From the calls that the consultants had with local stakeholders, it also emerged that the Mozambican fiscal authority - Autoridade Tributária de Moçambique (AT) – imposes a maximum limit (5%) on the non-performing loans (NPLs) which financial intermediaries can declare in the financial statements that they send to AT for tax purposes. Should it end the fiscal year with an NPL that is above 5%, a financial intermediary needs to restate its financial statements (i.e. decrease its provision levels and increase gross income by the corresponding amount) before presenting them to the tax authority.²⁹ This measure was introduced by AT to limit the possibility for FIs to overstate their NPL levels and, in turn, their loan provisions, to pay less taxes.

This maximum limit not only adds costs to FIs as, if they are in breach of the NPL ratio they need to reproduce two sets of financial statements, but it also represents a psychological barrier for lending institutions. Some FIs call it “an unwritten extra regulatory provision” that prevents them for wanting to take extra risks, even if they respect minimum CAR limits established by BdM.

ALTERNATIVE FINANCE

NO FRAMEWORK FOR DIGITAL LENDERS

Mozambique does not have a legal framework to foster digital lending. As mentioned above, Fintechs are mentioned in Law 20/20, however no specific framework is in place at this stage for fintechs active in the digital lending space. Decree 99/2019 which regulates payment service providers rule out the possibility for those companies to provide loans.³⁰ At this stage, Fintechs in Mozambique can only distribute loans in partnership with a bank or any other credit institution which, coupled with the absence of an open banking framework – see section on best practices-, greatly limits innovation and competition in the lending space.

²⁷ Article 9 AVISO 14/GBM/2017.

²⁸ Article I AVISO 04/GGBM/2003

²⁹ This norm has been introduced to avoid that financial intermediaries overstate their provision levels – and in turn decrease their gross income - to pay less taxes.

³⁰ Loans are not included in article 4 of this decree.

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. When they issued law 20/20 and decree 50/2024, the Mozambican authorities combined banks and other credit institutions with alternative finance companies which could create confusion for potential investors interested in setting up a dedicated alternative finance vehicle/firm. Creating a specific regulator as well as a targeted regulatory framework for alternative finance might stimulate the entry of new industry players (venture capital/private equity funds, private debt funds, peer to peer lenders, crowdfunding platforms, fintechs etc...) in Mozambique and boost alternative lending to those MSMEs which cannot access banks loans.

ABSENCE 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 countries such as the UK and South Africa – see following section for details - demonstrate that fiscal incentives are key to promote investments in risky ventures.

COMPARATIVE ANALYSIS

Mozambique's regulatory framework needs to become more flexible with existing MSME lending providers and should embrace innovation to boost alternative finance. This could be done both by relaxing Basel II provisions for financial intermediaries that do not represent a systemic risk for the country as well as by embarking on a big push to promote alternative finance instruments to promote inclusive lending.

This section examines regulatory frameworks that have either introduced more flexible rules around Basel II provisioning policies or that have managed to develop regulations tailored to alternative finance.

BANKS AND OTHER CREDIT INSTITUTIONS

LESS STRINGENT LOAN PROVISIONING POLICIES: EXAMPLES OF NIGERIA AND KENYA

As outlined above, provisioning policies in Mozambique are aligned to IFRS9. This is true for all banks and credit institutions, i.e. deposit-taking financial intermediaries supervised by BdM. While instructing commercial banks to respect IFRS9 makes sense to protect depositors' money, smaller financial firms such as microbanks and finance companies (i.e. GAPI etc...), which do not represent a systemic risk for the country, could be allowed to set aside lower provisions for riskier loans which will in turn incentivize them to lend to under-collateralized firms.

The table below shows that Mozambican provisioning policy for MSME lenders is significantly more restrictive than in other countries. In Nigeria, for instance, provisioning requirements for Microfinance Banks (MFBs) – MSME focused deposit-taking lenders similar to Mozambican microbanks – do not depend on the quality of the collateral pledged but only on the number of days of missed payments. Similarly in Kenya, where deposit-taking microfinance banks are subject to lower provisioning requirements than Mozambique for about all classes of risk (see table below).

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 MFI Regulations 2008, Central Bank of Kenya

MORE FLEXIBLE COLLATERAL REQUIREMENTS IN NIGERIA (AND GHANA)

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.³¹ 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.³²

ALTERNATIVE FINANCE

Given the lack of appetite as well as of regulatory incentives for traditional lenders to cater to MSMEs, there is room in Mozambique to support alternative finance companies to fill a portion of the vacuum. International examples of countries where alternative finance instruments flourished attest of the importance of a conducive regulatory framework, open to innovative business model to spur financial inclusion.

FINTECHS

OPEN BANKING³³

Open banking has captured the attention of regulators globally, with many jurisdictions exploring how such programmes might enable increased competition and customer choice and realise the potential of digital financial services (DFS) further. Open banking within a regulatory framework context refers to a standard set of sharing protocols, in most cases using an Application Programming Interface (API), whereby banks and other traditional financial institutions give customers and third parties easy digital access to their financial data. By opening up access to customer data, banks can encourage new entrants into the market, including fintech startups that are often more agile and innovative than traditional financial institutions.

There is currently no open banking regulation in Mozambique which strongly limit innovation in the financial inclusion space. For instance, a fintech might develop a mobile-based savings product designed for smallholder farmers, or a micro-loan product tailored to the needs of small businesses.

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. The framework has a wide scope and is indicated as applicable to banking and other related services comprising: (i) payments and remittance services; (ii) collection

³¹ Revised regulatory guidelines for MFBs in Nigeria (Art 8.2.1)

³² Supervisory guidance under Section 62 of Act 930 – eligible collaterals (Art 3.2)

³³ CCAF (2021)

and disbursement services; (iii) deposit-taking; (iv) credit; (v) personal finance advisory and management; (vi) credit ratings/scoring; (vii) leasing/hire purchase; and (viii) mortgages.

The nature of open banking necessitates robust data protection and cybersecurity frameworks in the broader financial sector, to ensure that data and information sharing is undertaken securely. This should be kept in mind by the Mozambican authorities when drafting open banking regulations.

CROWDFUNDING IN NIGERIA AND GHANA³⁴

Crowdfunding encompasses peer-to-peer (P2P) lending as well as equity crowdfunding (ECF). Peer-to-peer (P2P) lending is a collective term that describes business models where a group of individual or institutional investors provide a loan to a consumer or business borrower. In its most orthodox form, the P2P lending platform acts as a marketplace that connects the borrower and investors. ECF is a collective term describing business models where individuals and/or institutional funders purchase equity issued by a company.

ECF is typically done via an intermediary online platform that facilitates the sale of securities or ‘stakes’ in a business (typically an early-stage business), to sophisticated, institutional and retail investors. ECF remains nascent in much of SSA.

In Nigeria, ECF was previously de facto illegal under Section 67 of the Investment and Securities Act, which prohibits issuance of securities by private companies. On this basis, the SEC banned platforms engaging in ECF in 2016. In the recent SEC FinTech Roadmap, the SEC recommended that interest-based crowdfunding become regulated by the CBN and stated that these transactions should be regulated by the SEC. In line with this, on 21 January 2021, the SEC launched a bespoke regulatory framework for both ECF and P2P, the Crowdfunding Rules and Regulations. The Nigerian example was swiftly followed by Ghana (see box below).

Crowdfunding guidelines in Ghana³⁵

In September 2023, the SEC of Ghana published the draft of its crowdfunding guidelines with the aim of boosting local investment into start-ups and small businesses. Local capital providers can get licensed to raise up to GHS6mn (~\$400k) from individual investors for a single deal or for an investment vehicle. For agricultural projects the amount is higher at GHS10mn (~\$630k). The guidelines allow companies to raise equity, debt and 15 other investment instruments. Any investment vehicle can raise funds from cooperatives to companies.

STRENGTHENING REGULATORY FRAMEWORK OF DIGITAL LENDERS: THE CASE OF KENYA

Promoting open banking, whilst key, will not be sufficient to tackle the MSME lending gap unless additional measures are put in place to foster innovation in the alternative lending space. In Kenya, the Central Bank of Kenya Act was amended in 2021 to allow CBK to supervise the operations of digital lenders. The following year (2022), the central bank issued the Digital Credit Providers Regulations of 2022 which set out licensing requirements for digital lenders in Kenya. 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.

³⁴ CCAF (2021) FinTech Regulation in Sub-Saharan Africa, Cambridge Centre for Alternative Finance

³⁵ <https://sec.gov.gh/drafts/>

INVESTMENT FUNDS

INCENTIVES FOR INVESTORS TO BOOST VENTURE CAPITAL INDUSTRY

Financial incentives offered to investors are key to develop the venture capital industry. Examples abound of tax and non-tax incentives given across the world to both institutional as well as retail investors to invest in risky start-ups. The box below depicts the case of South Africa with its Section 12J provision designed to attract retail investors into start-ups financing. In the UK, the government set up two initiatives to support investments in early-stage businesses: the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS).

Section 12J in South Africa: a boost to the local venture capital industry

South Africa incentivized taxpayers to invest in the economy via an approved **Section 12J Venture Capital Company** (Section 12J VCC). Section 12J of the South African Income Tax Act allowed an investor to deduct the full amount invested in a Section 12J VCC from their taxable income for the specific tax year. By adhering to the scheme, an investor benefited from both the tax deduction and a return on the investor's full investment. It was a pre-requisite for Section 12J VCCs to register as a Financial Services Provider (FSP) with the Financial Sector Conduct Authority (FSCA) – the industry regulator - and all Section 12J VCCs needed to be approved by the South African Revenue Service (SARS) as a Venture Capital Company. Section 12J VCCs managed investments in qualifying companies with the single objective of stimulating investment in local small to medium enterprises (SMMEs) with the ultimate aim of leading to GDP growth and job creation. One caveat of this scheme is that investors needed to hold on to shares in a Section 12J VCC for a minimum period of five years in order to retain the tax deduction of the initial investment amount.

SETTING ALLOCATION TARGETS FOR PENSION FUNDS

Many regulatory frameworks across the globe have provisions on asset allocations to force pension funds to diversify away from investing in government notes. Alternative assets are usually part of those diversification policies. In South Africa, for instance, the overall allocation limit for alternative assets is capped at 27.5%, however pension funds are free to invest in a range of asset types, including bonds and listed and unlisted entities.³⁶ In Ghana, allocations to alternatives is set at up to 25% of pension funds' total portfolio.³⁷

RECOMMENDATIONS

Donors, legislative authorities, and regulator should work together to improve and modernize the regulatory framework for Mozambican MSME lenders: credit institutions and alternative finance lenders.

SETTING MORE FLEXIBLE PROVISIONS FOR NON-SYSTEMIC CREDIT INSTITUTIONS

Basel II provisions do protect depositors but disincentivize credit institutions from lending to uncollateralized SMEs. Article 85 or law 20/20 gives BdM the option of establishing prudential limits tailored to the typology of the institution supervised. The regulator should therefore set more lenient provisions for non-systemic credit institutions - such as microbanks – and finance companies **whose**

³⁶ Regulation 28 of the Pension Funds Act

³⁷ Guidelines on Investments of Tiers 2 and 3 National Pension funds, Article 9

main activity is the development of the national economy. 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

The paper shows that Mozambique currently lacks key pieces of legislation which allows alternative finance lenders – particularly those in the digital space – to offer tailored products to their customers. In particular, the country needs : i) an open banking law; ii) a crowdfunding law; and iii) a legal framework for digital credit providers.

CONCLUSIONS

The regulatory and policy framework plays a key role in promoting MSME lending. 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.

Consultants suggest discussing the outcomes of this regulatory assessment with the regulators and to disseminate the conclusions across the donor community to stimulate the discussion around the need of coming up with a more flexible and more innovative regulatory framework for inclusive finance in Mozambique.

ANNEXES

ANNEX A: LIST OF STAKEHOLDERS

- African Private Capital Association (AVCA)
- Associação Moçambicana de Bancos (AMB)
- Associação Moçambicana de Operadores de Microfinanças (AMOMIF)
- Banco de Moçambique
- Business Financial Solutions (BFS)
- FSDMoç
- Fundo de Garantia Mutuária (FGM)
- Futuro Mcb
- GAPI
- GIZ
- Hollard Mozambique
- KfW
- Microbanco Confiança
- Mozambique Fintech Association
- Pertence
- Ribeiro Carla (Lawyer)
- Southern African Venture Capital and Private Equity Association (SAVCA)
- The World Bank Group
- USAID SPEED