



FINANCIAL SECTOR DEEPENING
MOÇAMBIQUE

APROFUNDANDO O SECTOR
FINANCEIRO MOÇAMBIQUE

Final Report

CASE STUDY ON LESSONS LEARNED AND
ACHIEVEMENTS OF FSDMOÇ PROGRAMME ON DFS

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Background

Overview of FSDMoç

The Financial Sector Deepening, Moçambique (FSDMoç) is a six-year (2014-2020) programme funded by the UK International Development Agency (DFID) and Swedish International Development Cooperation Agency (SIDA) whose mission is to identify and partner with key market stakeholders, offering targeted investments and insights to promote the financial sector to improve financial inclusion.

The core objective of FSDMoç is to expand levels of financial inclusion by addressing constraints in the financial market, helping the diversification of Mozambique's economy and bringing prosperity and economic resilience to Mozambique's people. Based on this, FSDMoç supports key financial sector stakeholders to both innovate and expand financial services, using technical expertise and targeted funding to boost their capacity and the people they serve. More specifically, this objective is split across the following:

- Improve the financial capability of households and MSMEs
- Enable Financial Service Providers (FSPs) develop and/or deliver appropriate financial services to women, men, and MSMEs
- Promote the provision of adequate financial infrastructure and services to support financial inclusion
- Ensure the provision of relevant information about the supply and demand for financial services are available
- Spearhead efforts to improve the policy and regulatory environment for financial inclusion.

Project Rationale

FSDMoç, as a programme, is close to the end of its current tenure, following which it will transition into a special purpose vehicle to further advance the agenda of financial inclusion in Mozambique. Given this, this document serves to highlight the impact of FSDMoç on financial inclusion in Mozambique, through the lens of some of its programs and partnerships, as well as some of the key lessons learned from them. Alongside serving as a blueprint for incoming programmes, especially those looking to adopt a Market Systems Development approach, the case studies could potentially instigate new programmes geared towards the objective of expanding financial inclusion.

Financial Deepening in Mozambique

Overview

Financial deepening has become a crucial subject among several developing nations, as more efforts are being geared towards establishing a clear path for sustained growth, while alleviating poverty and enhancing social welfare. This is especially the case in many African countries, where a vast majority of individuals remain unbanked. Notwithstanding, the introduction of mobile money in Africa has played a transformative role in achieving greater financial inclusion by overcoming structural barriers and diversification of service offerings. Given the proliferation in mobile money solutions - such as Safaricom's Mpesa - which are supported by agent networks, individuals even in remote regions with limited banking infrastructure, are able to access affordable, seamless and reliable financial services. This impact extends to other aspects of society, including offering opportunities for small businesses to thrive and in turn, reducing poverty. Now, digital financial services are revolutionising the financial service market in sub-Saharan Africa, especially through mobile money (by 2017, there were 338 million mobile money accounts, which represents a 9% boost in penetration between 2014 and 2017¹) and have expanded into multiple offerings which range from basic money transfer and bill payments to credit, cross-border remittances, savings, insurance and merchant payments. As a result of these achievements, several government and development institutions have remained fervent in supporting the development and implementation of programmes/policies aimed at expanding their financial systems.

The Financial Ecosystem in Mozambique

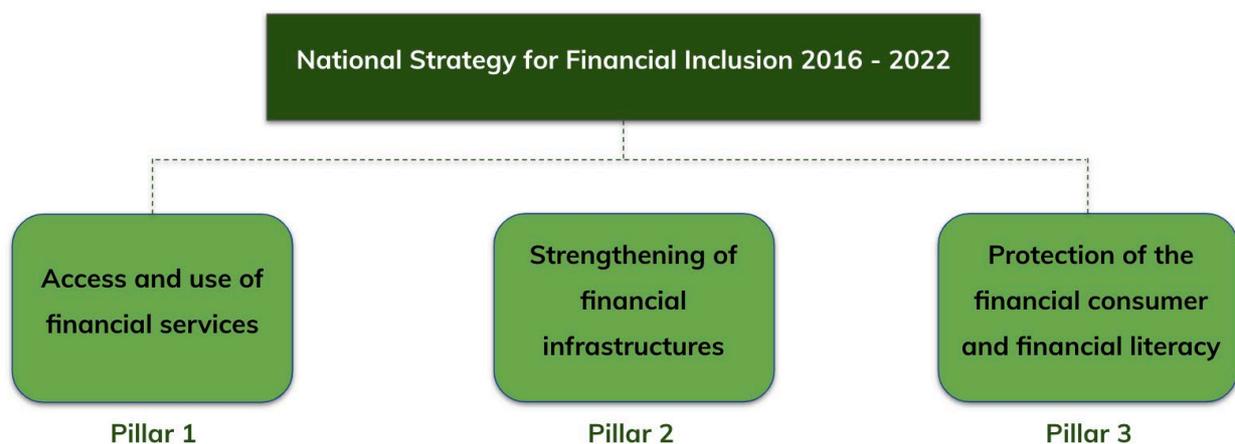
Compared to African countries such as South Africa, Kenya and Ghana, the financial ecosystem in Mozambique is relatively underdeveloped, as despite the diversity of the existing financial institutions, the levels of financial inclusion, especially in rural areas, are low (according to a FINSCOPE study in 2014, only 24% of people in Mozambique have access to formal financial services). The Central bank of Mozambique noted in its 2016 financial strategy report that there was deficit in terms of institutional presence and

¹ GSMA: State on the Industry Report on Mobile Money 2017

infrastructure to serve the country's population of 14.2 million individuals at that time. Similarly, it noted the lack of consolidation in terms of activities geared towards providing financial customer protection and literacy is such a way that ensured a growing trust in the financial system, alongside slow penetration levels, both geographically and demographically, of services such as insurance and pension.

National Strategy for Financial Inclusion 2016 – 2022 Pillars

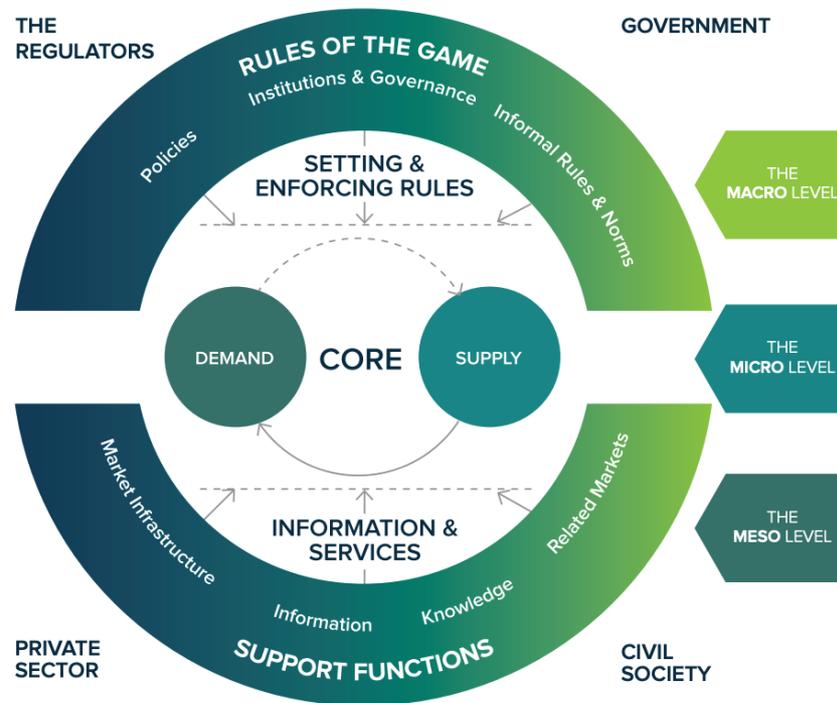
Despite the unappealing picture these suggested, the shortcoming engendered a new wave of developments to stimulate the expansion of the country's financial system. Layering on existing efforts by development stakeholders, the government, through the Central bank of Mozambique, introduced the National Strategy for Financial Inclusion 2016 - 2022, as a means to guide policies and investment priorities with regard to financial deepening. Primarily, the strategy is hinged on the following pillars, which have guided its implementation thus far.



The Role of FSDMoç

Since its introduction, the National strategy has been particularly relevant in directing the activities of both international and local stakeholders in terms of financial deepening. FSDMoç has been at the forefront of most of these activities, as they have played a key role in consolidating interest from both the government and regulatory/supervision institutions, and private financial sector stakeholders for the purpose of expanding financial services access points into rural and urban areas.

In doing this, FSDMoç has adopted the “M4P Approach”², which essentially is an approach to developing market systems that offers low-income individuals the capacities and opportunities for improved welfare, by allowing agencies/institutions to address market systemic constraints at the Macro, Micro and Meso level³.



Through this approach, FSDMoç has contributed towards providing sustainable developments in markets by engaging with key stakeholders to enhance financial literacy and boost economic resilience among Mozambique’s communities. While this is still in the process of materialising based on its full potential, it has led to the provision of effective and diversified financial services - provided under a more conducive operating environment - to suit the needs of smallholder farmers, small businesses, women, youth and rural communities.

Consequently, this document highlights these contributions, throughs the lens of some of FSDMoç’s programs and partnerships, and in relation to the pillars of financial inclusion strategy 2016 – 2022.

² Market systems development/ Making markets work for the poor

³ FSD Annual Report 2019

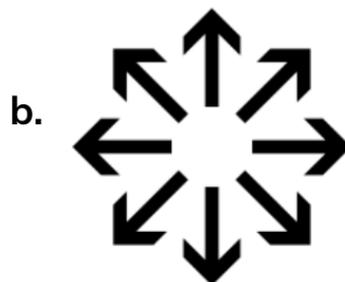
FSDMoç's Contributions to Pillar 1: Access and Use of Financial Services

By 2014, it was reported that about 24% of the adult population (and fewer in rural areas) in Mozambique had access to formal financial services. However, by 2017, 76.7% of the the adult population was reported to have gained access to physical or electronic financial inclusion services⁴, from which 33% was due to the contribution of financial institutions (banks), while 44% was driven by mobile money accounts. While driven by a host of factors, including concentrated efforts aimed at increasing digital literacy among potential users, the increased penetration was largely as a result of the creation of additional access points for digital financial services (DFS), as reflected by the expansion of service offerings, ranging from P2P (person to person) transfers and bill payments, to merchant and bulk payments, credit, savings, insurance and value-added services⁵.

FSDMoç has contributed to the expansion of digital financial services and access points in Mozambique in several ways. Most notably, this has been done through the following initiatives:



Supporting the expansion of mobile money



Supporting the adoption of new products and services



Spurring the growth of fintechs

⁴ Mozambique Financial Inclusion Report 2017

⁵ The Ecosystem of digital financial services in Mozambique

a. Supporting the expansion of mobile money

Over the past few years, Mozambique has witnessed significant improvements in the adoption of financial services. Between 2011 and 2017, the number of bank accounts per 1000 adults grew from 311 to 325, while the take-up of mobile financial services grew from 29% to 44%⁶. FSDMoç has supported this improvement in several ways, particularly through partnerships with mobile money providers, which culminated in the development of enhanced customer engagement strategies and avenues to drive DFS usage.

Vodafone Mpesa

Overview

Vodafone Mpesa has had strong impacts on financial inclusion, especially in rural regions in Mozambique. Due to its ease of use and accessibility (many low-income users who can afford only basic phones have come to easily adopt it as a convenient medium for making payments.

FSDMoç & Vodafone Mpesa

FSDMoç partnered with Vodafone Mpesa to help the company expand its existing market and communication strategy through a promoter model. The intervention targeted mobile money usage of microenterprises (such as informal traders) as well as low-income rural and urban households. FSDMoç's contribution was primarily in the form of co-funding that primarily focused on the following interventions:

- Hiring and training of promoters for a period of 24 months
- Reinforcing a consumer awareness campaign through promoters.

Impact on Financial Deepening

As a result of the collaboration, a total of 1,200,000 additional M-Pesa users were recorded to have signed-up. This was in addition to the other newly signed up M-Pesa clients from other areas where the promoter model was being applied. According to an M-Pesa report in July 2018, a total of 2,328,895 new M-Pesa accounts were opened from April 2016 to March 2018 through the promoter model.

⁶ FSD Annual Report 2019

b. Supporting the adoption of new products and services

As a key supplier of information and data on the status of the financial ecosystem in Mozambique, FSDMoç has been well positioned to support DFS providers in identifying existing gaps that warrant the adoption of new DFS products and services. As a result of this, they have instigated the adoption of products that ensure financial services are more accessible to underserved populations. Examples of this are as follows.

Letshego Agency Banking

Overview

Letshego is a commercial bank in Mozambique that is looking to provide underserved customers with access to simple and accessible financial solutions. Letshego is working with FSDMoç on a product called Letsgo, which is an agency banking solution that will allow agent networks to open accounts for customers and support them in performing withdrawal/deposits, payments and savings transactions.

FSDMoç & Letshego

FSDMoç has been instrumental to the implementation of Letsgo by providing technical support in the form of training of banking agents on customer education and customer education activities, marketing strategy development for rural environment and marketing activities, as well as product (Personal and MSE) development, based on lessons learnt from the pilot and specific market research. For example, FSDMoç helped develop the end-user use cases which fed into the development of Letsgo's customer engagement strategy.

Impact on Financial Deepening

As at March 2019, Letshego was able to financially include nearly 13,795 customers in six provinces of Mozambique (*FSD Annual Report 2019*). This impact was spread across rural households, small-scale farmers and informal business. In addition to the reliable access to financial services that Letsgo avails underserved populations, they are provided with low service costs, that enhance both their capacity and propensity to save - in turn creating an avenue for increased adoption of digital savings via agency banking.

BCI Rural Banking

Overview

BCI is a commercial bank in Mozambique, with over 196 business units across Mozambique. Recently, BCI has been looking to explore opportunities to extend banking to rural communities.

FSDMoç & Letshego

Through a co-funding agreement (with CGAP), FSDMoç partnered with BCI to support the bank's rural expansion strategy that aims to extend financial services to agriculture value chains participants, delivered through digital channels. This entailed building key capabilities of BCI staff to develop innovative solutions for smallholder farmers and households.

Impact on Financial Deepening

The project was aimed at reducing the circulation of cash in the economy by increasing the levels of financial literacy among farmers householders, with an emphasis on replacing cash with digital financial services.

c. Spurring the growth of fintechs

FSDMoç recently partnered with the Central bank of Mozambique to run a sandbox incubator programme. The sandbox program represents a vital spring box for innovation among fintechs in Mozambique. In addition to providing startups with resources (fundings, tools, working space) to explore and develop innovative ideas that translate to non-traditional ways of delivering DFS, it provides them with access to key stakeholders who are able to provide key perspectives and guidance to ensure the successful implementation of the their products/services.

FSDMoç's contribution to the success of the incubator program has been highly significant, as by virtue of its understanding of the operating and regulatory landscape of the financial system, it has enabled many of the fintechs navigate regulatory hurdles and streamline their operations process to more effectively connect the value of their products

to meet the financial needs of both urban and rural communities in Mozambique. Some startups that have benefited from the sandbox are as follows.

Ekitiva

Overview

Ekitiva is a tech company that has created an easier and faster way of making payments online through quick e-pay, a payment aggregator system. It aims to change the digital and financial market in Mozambique by transforming the digitisation of online payment systems.

FSDMoç & Ekitiva

FSDMoç supported Ekitiva in streamlining their product delivery process and obtaining a licence from the Central Bank of Mozambique. As a result of, one of their solutions is being piloted with the Central bank and has acquired over 1500 users.

Impact on Financial Deepening

While only one of their solutions is being piloted, they are keen to do more testing to ensure they launch a refined product with the capacity to reach and satisfy a large proportion of the underbanked in Mozambique. However, for this to happen, a significant leap in mobile penetration will be required, as their key solution, quick e-pay, is anchored on the existing mobile wallet infrastructure.

Paytek

Overview

Paytek is currently piloting an electronic wallet, which will allow end users to continue using their bank accounts and mobile wallets to make payments for services and purchases, but in a more intuitive, comprehensive and conscious way.

FSDMoç & Paytek

FSDMoç supported Paytek in developing their electronic wallet by providing guidance on KYC (Know Your Customer) and risk mitigation processes and streamlining the back-end authentication process. In addition to this, FSDMoç's supported them in getting a licence to pilot their product from the central bank.

Impact on Financial Deepening

As PayTek looks towards developing the solution further, it is expected to have a significant effect on the ease of use of digital financial services, as users will be able to access all their mobile money and bank accounts seamlessly through one platform. This is expected to further influence general sentiments on the use of DFS, and address behavioral challenges, such as hassle factors, that are often detrimental to the adoption of DFS among low-income individuals.

Robobo

Overview

Robobo's Pagalu project, is a payment aggregator service that enables payments between mobile wallets, bank accounts, and other methods. Even though Pagalu is in its pilot phase, it is expecting to manage more than 10,000 daily transactions at start.

FSDMoç & Robobo

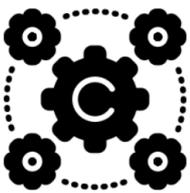
FSDMoç supported Robobo in developing their product (Pagalu) and aligning key components of the end to end user engagement process. Also, based on FSDMoç's support, Robobo was able to obtain a licence from the Central Bank of Mozambique and align their business operations with the existing regulatory framework.

Impact on Financial Deepening

While Pagalu is still in its pilot phase, it is expected to be largely adopted by many businesses and entrepreneurs who require a convenient and streamlined medium for receiving payment. As it becomes widely adopted by businesses, especially in urban regions, it's relevance is expected to distill to local businesses in rural/remote regions that are looking to incorporate modern and seamless functions into their operations.

FSDMoç's Contribution to Pillar 2: Strengthening of Financial Institutions

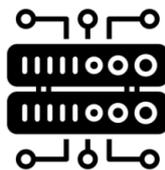
Beyond supporting the creation of additional access points and increasing DFS penetration, FSDMoç has been working with key regulators and DFS stakeholders in Mozambique to build capacity to respond to innovation within the ecosystem. Some of FSDMoç's work with these stakeholders include:



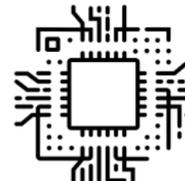
Interoperability



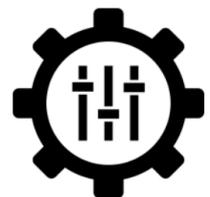
Micro Insurance



Mobile Infrastructure



Fintech Support



Regulatory Support

a. Interoperability

There has been a need to understand Interoperability from different stakeholder perspectives including banks, mobile operators, agents, payment providers. FSDMoç supported this by creating a platform for the industry to engage in dialogue, which culminated in the design of the "Bank to Wallet Agreement". By virtue of this, bi-lateral agreements between mobile money operators and banks have been set up.

Similarly, FSDMoç has contributed in drafting the wallet to wallet interoperability agreement and facilitated discussions among the 3 mobile money operators in the country.

b. Micro Insurance

Micro-insurance represents an avenue to deepen financial inclusion in Mozambique, given the popularity of small-scale farming among rural households, for which it is known to be highly relevant. As such, the drive to expand the supply of micro-insurance products is a step in the right direction in terms of financial deepening.

FSDMoç supported the Insurance Supervision Institute of Mozambique ISSM in designing the road map to ensure that the ecosystem in Mozambique is conducive for microinsurance. The implementation of recommendations on the road map is ongoing, based on the following pillars:

- Enabling the market to design microinsurance.
- Enabling the market to increase demand for microinsurance through consumer education.
- Increasing engagement with regulators to ensure an enabling regulatory environment for microinsurance.
- Fostering stronger partnerships with other stakeholders who are involved in the process of providing microinsurance.

c. Mobile Infrastructure

In ensuring a functional infrastructure to support mobile-based payments, as well policies geared towards the interest of users, in terms of pricing and security, the Communications Authority of Mozambique (ARECOM) has contributed to the expansion of financial services, particularly to low-income users, who access DFS via mobile.

FSDMoç has supported ARECOM in formulating policies that are geared towards facilitating a more enabling environment to support financial inclusion. So far, most of the policies have focused on infrastructure sharing among mobile money operators, the protection and privacy of customers, and the elimination of any form of price discrimination. In supporting the development of these policies, FSDMoç provides information on the digital financial landscape and leverages its existing partnerships in pulling together relevant stakeholders to agree to work together to achieve the objective(s) of the policies.

d. Fintech Support

FSDMoç supported the formation of the fintech association, given their experience with working with Fintechs and providing both technical and financial support to ensure their growth. Currently, FSDMoç is supporting the association in advocating for more policies to

ensure a sound regulatory framework that will engender the development and operationalization of more fintechs in the country. Primarily, by acting as a voice for fintechs, the fintech association looks to contribute to the extension of financial services by spurring growth and innovation among fintechs. For example, the association is currently supporting the development of a product that will offer customers access to insurance packages through mobile platforms, as well as the creation of electronic payment systems ('gateways') that can be used by online commerce or international money transfer applications.

e. Policy and Program Support with Central Bank

Since its inception, FSDMoç has provided in depth training courses, delivered through partnerships with the Central Bank, which has filled a major gap by upskilling founders to take advantage of new technological developments in ensuring effective service delivery. An example of this is the sandbox incubation programme, which has supported notable fintechs such as Quick-e-pay, Pagalu, Paytek, Zoono and Socremo and Mukuru. FSDMoç's involvement with the sandbox has two main benefits: increasing the Central Bank's knowledge of the Fintech sector, and providing the startups with both technical and financial support, as well as a deep understanding of Mozambique's operating and regulatory environment, which have enabled them to garner much-needed buy-in from regulators and other key stakeholders. Beyond this, FSDMoç has supported the CBN in making certain policies through the publications and positioning papers that provide evidence on specific issues relating to the financial ecosystem. A key example of this was CBN's stance on agent and non-agent banking, which was influenced by FSDMoç policy instrument.

FSDMoç's Contribution to Pillar 3: Protection of the financial consumer and financial literacy

FSDMoç has supported initiatives that are focused on ensuring customer protection and improved financial literacy. While these objectives have primarily been components of many of FSDMoç's programs and initiatives that cut across both pillars 1 and 2, specific examples where FSDMoç's impact was specifically directed in driving the focus of this pillar are its engagement with several institutions. Specifically, FSDMoç had been responsible for several capacity building initiatives, which have been implemented across the Meso, Macro and Micro level.

Examples of this are as follows:

- **Meso Level:** FSDMoç, along with its partners, FSD Africa and Digital Frontier Institute| Fletcher School, sponsored the training of professionals working within financial service providers (FSPs). This was aimed at ensuring that the professionals are able to build a solid foundation on digital financial service capabilities. As a result of this, as at 2019, about 34 out of 71 professionals (37% women) from banks, insurance and academia had been sponsored by FSDMoç, with the others having been sponsored by their own institutions.

Similarly, through a partnership with Digital Disruption (DD), FSDMoç engaged 17 representatives of key FSPs on design thinking (or human centred design), with the end goal of building a Community of Innovation Ambassadors. This initiative is expected to culminate in the development of innovative and disruptive solutions/ initiatives from the FSPs in the near term.

In addition, through a partnership with Central Bank (BM) and PDE, FSDMoç contributed to the training of 40 professionals on GIS. Prior to the intervention, the GIS platform, which is hosted at the Ministry of Transportation / Spatial Development Programme (PDE), was devoid of a strong financial services layer, which hampered its effectiveness. However, by partnering with the Central Bank who supports FSPs to upload their data for financial services access points, FSDMoç was able to facilitate the inclusion of a financial services layer to the

platform.

- **Macro Level:** At the Macro level, FSDMoç facilitated several dialogues aimed at establishing interoperability within the financial services industry. As a result of this, an arrangement that allowed the industry lead the provision of interoperability was established. Similarly, FSDMoç supported resolution on KYC and commission of electronic payments among several FSPs.
- **Micro Level:** At this level, FSDMoç has been working with companies like Paycode and SolarWorks. For Paycode, FSDMoç has been promoting (P2G) cashless alternatives for consumers through education and awareness of digital services (e.g. digitizing government payment). Similarly, with SolarWorks, FSDMoç is supporting the pilot of business models and platforms such as Pay as you go and digital credit scoring (P2B). More detailed explanations of this are as follows:

Paycode

Overview

Paycode is a fintech company which combines biometrics, payments, and data into one financial product, and is able to function offline in real-time. By leveraging its Electronic Data and Payment Technology (EDAPT) system, Paycode supported the National Institute of Social Action (INAS) in delivering social payments to beneficiaries in the districts of Mabalane, Chokwé and Massingir.

FSDMoç & Paycode

Alongside supporting Paycode in introducing the EDAPT system, FSDMoç conducted financial literacy trainings with beneficiaries involved in the use of system, on personal and banking finances. The content of the financial education was aimed at promoting beneficiaries' reflections of their relationship with money, and how the proper management of their personal finances can contribute to their well-being. To ensure ease of understanding, the trainings were done using every day local language, and incorporated behavioral elements to ensure they were as practical as possible with regard to beneficiaries' daily lives.

FSDMoç & Paycode

The financial literacy topics included:

- The use of money and consumer consciousness (avoiding compulsive consumerism)
- Financial frugality when facing available financing opportunities; using credit wisely and avoiding over indebtedness
- The importance and advantages of planning and monitoring with a personal and family budget
- Maintain good personal and family financial management, especially with regard to savings

The dissemination was done publicly through door-to-door visits, rallies and densely populated places where publicity materials such as t-shirts, couplets, pamphlets and others will be distributed in local languages for a better understanding.

Beyond this, FSDMoç supported INAS in expanding the access channels available to beneficiaries. This was done by leveraging the INAS beneficiary smart card as a vehicle for the delivery of additional financial services such as insurance.

Impact on Financial Deepening

Based on the partnership with Paycode, the government (through the National Institute of Social Action) has been able to simplify the process of making and receiving payments, tracking and storing of transactions conveniently and economically using secure and mobile biometric cards. This collaboration contributed to the inclusion of many low-income population, by ensuring the adoption of DFS at the village level, particularly among 18,000 low-income households who are beneficiaries of the social grant. Also, as a result of the incorporation of biometric verification into the solution, financial and biometric data are available for individuals at the bottom of the pyramid, who otherwise would have had no digital footprint.

SolarWorks

Overview

SolarWorks is a company that “rents to own” consumers a solar home system. Consumers use basic mobile phones to make payments on a daily, weekly or monthly basis. Through this model, companies can minimize the cost of collections by automating the receipt of payments, while remote rural customers get immediate access to basic electricity without having to take out a traditional bank loan.

FSDMoç & SolarWorks

FSDMoç supported SolarWorks in providing access to energy and financial services to underserved households and small businesses in Mozambique, by further developing and rolling-out a system that combines credit data, system data and user data in underserved regions (Inhambane - Beira area) . As such, a key component of the project was implementing financial literacy training, to orientate customers in the underserved regions of the relevance of DFS.

Process Learnings and Recommendations

As earlier noted, FSDMoç employs an “M4P Approach”, which essentially is an approach to developing market systems that offers low-income individuals the capacities and opportunities for improved welfare, by allowing agencies/institutions to address market systemic constraints at the Macro, Micro and Meso level. Through this approach, FSDMoç has contributed towards providing sustainable developments in markets by engaging with key stakeholders to enhance financial literacy and boost economic resilience among Mozambique’s communities. From our conversations with stakeholders, this approach has been very effective and led to implementation of many successful initiatives.

Notwithstanding, a few process learnings based on the stakeholders experiences with working with FSDMoç, erupted from the discussion. By virtue of their nature, they also translate to recommendations. They are as follows:

1. Continue to support Fintechs outside and beyond the sandbox program

FSDMoç has been helpful in ensuring the financial stability and sustainability of startups involved in the sandbox incubator program. This reveals the importance of appropriate partnerships and support early on in the startup and product development phase. Given this, FSDMoç should:

- Further extend their support to more fintechs outside of the sandbox program, who have innovative solutions but lack sufficient knowledge of the business, operating and regulatory environment
- Continually provide fintechs who are part of the incubator programme with on-going support, even after they leave the sandbox, to ensure they sustain their momentum in terms of impact, and are continuously guided as they scale
- Further support startups in a more official capacity, in navigating regulatory approval hurdles. While the sandbox incubator program already ensures this, FSDMoç is well positioned to act as an intermediary between the Central Bank and several other fintechs that require regulatory approval outside of the sandbox programme. This will ensure the quick resolution of regulatory barriers and spur more innovative activity in the DFS space.

2. Continually Support more startups with simple, easy to use solutions, rather than complex products

Through the implementation of paycode, it has become apparent that users require simple DFS solutions, as opposed to complex solutions such as blockchain technologies. This is especially the case for users/potential users in rural areas, many of which are still unbanked. As FSDMoç looks to close the financial inclusion gap based on this understanding, it is essential that they partner with more organizations and institutions that provide products or services that potential users engage with during the course of their ordinary lives.

3. Extend more funding and technical support to agricultural enterprises that can incorporate elements of digital payments into their services

The agricultural sector hosts the majority of households in rural regions in Mozambique, most of which are currently unbanked. While FSDMoç currently does this (e.g the rural banking project BCI that focused on rural farmers), more attention should be given towards supporting the incorporation of DFS into agricultural solutions, or extending more support to enterprises that currently do. This will serve as a natural and accessible access point for local farmers who are yet to adopt DFS.

4. Advocate for the modification of account-opening age policy, as well as agent banking requirements.

In rolling out the agent banking model with Letshego, two key policy shortcomings were identified. These are the age requirement for account ownership and the multiple requirements for becoming an agent.

In Mozambique, the minimum account opening age is 21. This, unfortunately, does not play to the strengths of Mozambique's population, as with a median population age of 17.2 (2019)⁷, it implies that automatically, more than 50% of the population are excluded from account ownership by age. Given this, it might be worthwhile to advocate for the a review of age requirement for bank account ownerships, perhaps to 16 or 18, to ensure that more individuals are able to own accounts.

⁷ <https://www.worldometers.info/world-population/mozambique-population/>

With regard to agent requirements, it is essential that the regulation around this is revised to support the expected growth in agency banking across Mozambique. While it remains crucial that certain requirements are imposed for the sake of financial accountability and security, it is as important that the requirements are limited to only factors that are absolutely necessary. FSDMoç may be able to support with this given their relationship with regulators within the financial services ecosystem.

5. Leverage industry position in fostering stronger partnerships between banks (and other DFS providers) and mobile money operators.

The opportunities for product development for Vodafone M-Pesa are currently stunted by banks hesitate to partner with mobile money operators, as they are viewed as potential competitors. While a potential solution to this is a license upgrade, which will then enable mobile operators offer additional services (such as loans and savings) without the support of banks, it will come at a strong cost and entail additional regulation and scrutiny from the central bank. As such, in driving mobile-based DFS expansion, the best option may be to facilitate mutually beneficial partnerships between banks (and other financial services providers, such as insurance and pension companies) and mobile money operators, such that both entities are able to support each other: the banks offer a wide range of financial services, while the mobile money operators leverage their mobile platform in delivering them to users.

Appendix – Stakeholder Interview Notes

Paytek

Overview

Paytek is a payment aggregator that is looking to simplify payments by consolidating mobile wallet and bank account access. It is one of the startups the sandbox incubator programme for Fintechs being run by the Central Bank of Mozambique in partnership with FSDMoç. The incubator, which is in Maputo, is designed to spur interaction between the regulator (Central Bank) and fintech service providers, as well as provide opportunities for startups to develop, prototype and effectively launch their products.

Paytek is currently piloting an electronic wallet, which will allow end users to continue using their bank accounts and mobile wallets to make payments for services and purchases, but in a more intuitive, comprehensive and conscious way, thus creating a sustained habit of making electronic payments to the detriment of the use of physical money. The basic services PayTek intends to offer is bill payment and prepaid refill sale services through direct agreements with service providers or other intermediary entities. In addition to this, they are designing new systems for low-value payments such as transport, public service fees, admission to shows, indoor consumption and also automated systems for payments for access to services on the goFor merchants, they have a concept of "Push-Payment", in which the transaction is initiated and controlled by the payer by inserting and validating a merchant code that can be obtained by scanning a QRCode from an application on a smartphone or tablet.

FSDMoç & Paytek

FSDMoç supported Paytek in developing their electronic wallet by providing guidance on KYC and risk mitigation processes and streamlining the back-end authentication process. In addition to this, through their involvement in the sandbox incubator and FSDMoç's support, they have been able to get a licence to pilot their product from the central bank. This is particularly considered to be a big win by Paytek, as prior to their involvement in the sandbox and FSDMoç, they had been unable to materialise the idea of payment aggregation due to the lengthy, bureaucratic process of obtaining regulatory approval.

Anticipated Impact Financial Deepening

As PayTek looks towards developing the solution further, it is expected to have significant effects on the ease of use of digital financial services, as users will be able to access all their mobile money and bank accounts seamlessly through one platform. This is expected to further influence general sentiments on the use of DFS, and address behavioral challenges based on *hassle factors* and *reliability* that are often detrimental to the adoption of DFS among low-income individuals.

Process Learnings and Recommendations

The sandbox program represents a vital spring box for innovation among fintechs in Mozambique. In addition to providing startups with resources (fundings, tools, working space) to explore and develop innovative ideas, it provides them with access to key stakeholders who are able to provide key perspectives and guidance on peculiar issues (i.e regulations, security policies, market dynamics, marketing channels) to ensure the successful implementation of the developed products/services. However, beyond the program, it is essential that fintechs are provided with on-going support, to ensure they sustain their momentum in terms of impact, and are continuously guided as they scale.

Letshego

Overview

Letshego is a commercial bank in Mozambique that is looking to provide underserved customers with access to simple and accessible financial solutions. Letshego is working with FSDMoç on a product called Letsgo, which is an agency banking solution that will allow agent networks to open accounts for customers and support them in performing withdrawal/deposits, payments and savings transactions. Given the dearth of banking infrastructure that exists in remote regions in Mozambique, Letsgo is ensuring the expansion of financial access to individuals in such regions, by incorporating an agent banking model. In driving the adoption of Letsgo, Letshego provides beneficial incentives - in the form of savings packages, among others - to customers.

FSDMoç & Letshego

Letshego was keen to partner with FSDMoç given their known interest in financial deepening, as well as their experience in supporting DFS providers in implementing programs or launching products aimed at expanding financial access. As anticipated, FSDMoç has been instrumental to the implementation of Letsgo, through the provision of both technical and financial support. For example, FSDMoç helped develop the end-user use cases which fed into the development and refinement of Letsgo's value proposition and customer engagement strategy. In addition to this, FSDMoç supported Letshego in addressing a few regulatory challenges and provided funding to support the deployment of agents to target regions.

Impact on Financial Deepening

The introduction of agency banking has played a remarkable role in driving DFS adoption among individuals in low-income regions, especially since hitherto to its introduction, the deficiency of formal banking infrastructure in such regions represented a major barrier. This impact has expanded across different user groups, which include both male and female individuals, rural households, small-scale farmers and informal business. In addition to the improved, reliable access to financial services that Letsgo avails underserved populations, they are provided with low service costs, that enhance both their capacity and propensity to save - in turn creating an avenue for increased adoption of digital savings via agency banking.

Process Learnings and Recommendations

In rolling out Letsgo, two key policy shortcomings were identified. These are the age requirement for account ownership and multiple requirements for becoming an agent. In Mozambique, the minimum account opening age is 21. This, unfortunately, does not play to the strengths of Mozambique's population, as with a median population age of 17.2 (2019), this implies that automatically, more than 50% are excluded from account ownership by age. Given this, it is crucial to ensure that the minimum age is reduced, perhaps to 16 or 18, to ensure that more individuals are able to own accounts.

With regard to agent requirements, it is essential that the regulation around this is revised to support the expected growth in agency banking across Mozambique. While it remains crucial that certain requirements are imposed for the sake of financial accountability and

security, it is as important that the requirements are limited to only factors that are absolutely necessary.

Paycode

Overview

Low connectivity across Africa has historically affected the digitization of government-to-person payments, especially since the majority of households/individuals who are recipients of the payments live in remote regions. Paycode, a fintech company, developed a solution to address this which combines biometrics, payments, and data into one financial product, and is able to function offline in real-time. With the use of Paycode's payment system, the government (through the National Institute of Social Action) has been able to pay monthly social grants to beneficiaries more effectively, while ensuring that beneficiaries are able to verify their identity and instantly access the payment via e-wallets, even in the absence of electricity or internet connection.

FSDMoç & Paycode

FSDMoç supported Paycode in expanding their offerings to include the provision of financial services, such as savings, loans and insurance, to low-income populations. In addition to this, they provided training on financial literacy and management to beneficiaries of the social grants, as means to enhance their use of the products and social welfare.

Impact on Financial Deepening

Given that paycode's solution is used by the National Institute of Social Action in paying monthly social grants to vulnerable households, it has ensured the adoption of DFS at the village level, particularly among the low-income households who are beneficiaries of the social grants. Beyond this, the incorporation of biometric verification into the solution has ensured that financial and biometric data are available for individuals at the bottom of the pyramid, who otherwise would have had no digital footprint.

Process Learnings and Recommendations

Through the implementation of paycode, it has become apparent that users require less complex DFS solutions, as opposed to complex solutions such as blockchain

technologies. This is especially the case for users/potential users in rural areas, many of which are still unbanked. As FSDMoç looks to close the financial inclusion gap based on this understanding, it is essential that they partner with more organizations and institutions, that provide products or services that potential users engage with during the course of their ordinary lives.

Robobo

Overview

Robobo is an ICT development agency which started in the UK in 2011 but has since moved its headquarters to Maputo, Mozambique. Robobo is one of the startups in the sandbox incubator programme for Fintechs being run by the Central Bank of Mozambique in partnership with FSDMoç. Robobo's Pagalu project, which is in development, is a payment aggregator service that enables payments between mobile wallets, bank accounts, and other methods. Its product provides startups, entrepreneurs, content creators, and all who wish to monetize or accept payments with a compact means of receiving payments. Even though Pagalu is in its pilot phase, it is expecting to manage more than 10,000 daily transactions at start.

FSDMoç & Robobo

FSDMoç supported Robobo, through technical expertise and fundings, in the developing their product (Pagalu) and aligning key components of the end to end user engagement process. Also, based on FSDMoç's support, Robobo was able to obtain a licence from the Central Bank of Mozambique and align their business operations with the existing regulatory framework.

Impact on Financial Deepening

While Pagalu is still in its pilot phase, it is expected to be largely adopted by many businesses and entrepreneurs who require a convenient and streamlined medium for receiving payment. As it becomes widely adopted by businesses, especially in urban regions, it's relevance is expected to distill to local businesses in rural/remote regions that are looking to incorporate modern and seamless functions into their operations.

Process Learnings and Recommendations

Their involvement with FSDMoç has been helpful in ensuring their financial stability and sustainability. As such, it reveals the importance of appropriate partnerships and support early on in the startup and product development phase. Given this, FSDMoç should look to extend their support to more fintechs, who have innovative solutions but lack sufficient knowledge of the business, operating and regulatory environment.

Ekitiva

Overview

Ekitiva is a tech company that has created an easier and faster way of making payments online through quick e-pay, a payment aggregator system. It aims to change the digital and financial market in Mozambique by transforming the digitisation of online payment systems. Ekitiva is one of the startups in the sandbox incubator programme for Fintechs being run by the Central Bank of Mozambique in partnership with FSDMoç.

FSDMoç and Ekitiva

Like with many fintechs involved in the sandbox program, FSDMoç supported Ekitiva in streamlining their product delivery process and obtaining a licence from the Central Bank of Mozambique. As a result of this, one of their solutions is being piloted with the Central bank and so far, has acquired over 1500 users.

Impact on Financial Deepening

While only one of their solutions is being piloted, they are keen to do more testing to ensure they launch a refined product with the capacity to reach and satisfy a large proportion of the underbanked in Mozambique. However, for this to happen, a significant leap in mobile penetration will be required, as their key solution, quick e-pay, is anchored on the existing mobile wallet infrastructure.

Process Learnings and Recommendations

Delayed regulatory approval appears to be a key factor that hinders the launch and growth of fintechs with non-traditional banking solutions in Mozambique. While the sandbox incubator programmes already ensures this, FSDMoç is well positioned to act as an intermediary between the Central Bank and several fintechs that are likely seeking approval outside of the sandbox programme.

Vodafone M-pesa

Overview

Vodafone is a text based payment system that allows users to use a compact mobile wallets with access to a wide range of financial services via a mobile phone. The service allows users to deposit and transfer from a network of agents localised in different communities. The achievements of Vodafone are notable throughout Africa, recording 37 million customers in 2019. Specifically, in Mozambique, the platform gained a total of 4.3 million Vodafone over the past 7 years (since its launch in Mozambique in 2013), 69% of which have been kept active through constant customer engagement.

FSDMoç & Vodafone Mpesa

FSDMoç partnered with Vodafone in 2016 to increase the uptake of M-pesa payments products in Mozambique. Based on the partnership, both parties invested in a financial literacy campaign that was designed to change behaviour towards mobile money usage. As a result of this, Mpesa was able to double its promoter workforce which culminated in a significant increase in its user base, especially in rural regions.

Impact on Financial Deepening

Vodafone Mpesa has had strong impacts of the financial inclusion, especially in rural regions in Mozambique. Due to its ease of use and accessibility (it can be accessed on any type of phone), many low-income users who can afford only basic phones have come to easily adopt it as a convenient medium for making payments. In addition to this, by virtue of its popularity, it has leveraged social proof in influencing general perceptions on the relevance and reliability of mobile money.

Process Learnings and Recommendations

The opportunities for product development for vodafone mpesa are currently stunted by banks hesitate to partner with mobile money operators, as they are viewed as potential competitors, While a potential solution to this is a license upgrade, which will then enable mobile operators offer additional services (such as loans and savings) without the support of banks, it will come at a strong cost and entail additional regulation and scrutiny from the central bank. As such, in driving mobile-based DFS expansion, the best option may be to

facilitate mutually beneficial partnerships between banks and mobile money operators, such that both entities are able to support each other: the banks offers a wide range of financial services, while the money money operators leverage their mobile platform in delivering them to users.

Mkesh

Overview

Mkesh launched in Mozambique in 2011 as the first mobile money provider. Similar to Vodafone, mkesh enables customers to access an e-wallet via a mobile phone. Mkesh grew an active customer base to 2 million users in 5 years. This has led to the expansion and accessibility of the rural population to mobile-based banking. Although Mkesh has made remarkable success over the years, they are looking to expand the value of their product by encouraging customers to maintain an e-wallet, rather than cash out fully.

FSDMoç & Mkesh

In developing an e-wallet, Mkesh looked to partner with FSDMoç given their experience in supporting the development of DFS products and providing guidance in the areas of regulatory processes, product-market fit, and marketing/user engagement strategy. As a result, FSDMoç supported them in designing core aspects of the e-wallet solution, which would enable individuals with insufficient income to maintain a normal bank account, utilise the e-wallet for daily financial transactions e.g. money transfer, bill payments, savings, etc.

Impact on Financial Deepening

Unfortunately, Mkesh encountered some challenges with the IT company that was engaged to develop the product, which hindered its launch. Notwithstanding, they are still looking to explore the idea, as it holds promise in terms of extending financial access to low-income individuals and small-scale farmers.

Process Learnings and Recommendations

IT suppliers are crucial to the development of effective DFS solutions. As such, it is vital to explore measures that ensure that contracted suppliers possess the technical expertise and experience to deliver well designed products, based on agreed specifications and timelines.

ARECOM

Overview

ARECOM is a government entity that regulates telecommunications systems in Mozambique. ARECOM provides the required infrastructure to support financial inclusion by working with different digital finance service providers to ensure the functionality of back end operations. Furthermore, ARECOM policies have focussed on ways to support the execution of their objective in setting up reliable telecommunications infrastructures and ensuring that it is fair for both the service provider and consumer and thus closing any gaps for misuse on both ends.

FSDMoç and ARECOM

FSDMoç plays a key role in formulating policies that are geared towards facilitating a more enabling environment to support financial inclusion. So far, most of the policies have focused on infrastructure sharing among mobile money operators, the protection and privacy of customers, and the elimination of any form of price discrimination. In supporting the development of these policies, FSDMoç provides information on the digital financial landscape and leverages its existing partnerships in pulling together relevant stakeholders to agree to work together to achieve the objective(s) of the policies.

Impact of Financial Deepening

In ensuring a functional infrastructure to support mobile-based payments, as well policies geared towards the interest of users, in terms of pricing and security, ARECOM has contributed to the expansion of financial services, particularly to low-income users, who access DFS via mobile. As they look to enact more favorable regulatory policies, they expect this to yield more impact in terms of DFS adoption and use.

Process Learnings and Recommendations

Given their level of influence among stakeholders, FSDMoç has the capacity to play a stronger role as an intermediary between organizations, like fintechs, and regulatory institutions. This will ensure the quick resolution of regulatory barriers and spur more innovative activity in the DFS space.

Fintech Association Mozambique

Overview

The fintech association in Mozambique is an entity that brings together technology companies linked to the financial sector. The association intends to be an active voice, in the process of financial inclusion and in dialogue with regulators to help create new laws, among other joint actions, to ensure an enabling environment for the development of fintechs. In addition to this, the association serves as a useful hub to share ideas between various stakeholders in Mozambique's financial technology services industry.

FSDMoç and Fintech Association

FSDMoç supported the formation of the fintech association, given their experience with working with Fintechs and providing both technical and financial support to ensure their growth. Currently, FSDMoç is supporting the association in advocating for more policies to ensure a sound regulatory framework that will engender the development and operationalization of more fintechs in the country. Of primary concern, is the issue of lengthy process for obtaining regulatory approval and the general cost of doing business in the country.

Impact on Financial Deepening

Primarily, by acting as a voice for fintechs, the fintech association looks to contribute to the extension of financial services by spurring growth and innovation among fintechs. For example, the association is currently supporting the development of a product that will offer customers access to insurance packages through mobile platforms, as well as the creation of electronic payment systems ('gateways') that can be used by online commerce or international money transfer applications.

Process Learnings and Recommendations

By virtue of FSDMoç's neutral, yet important position among DFS stakeholders and regulators in Mozambique, they have the capacity to support the development of more policies aimed at expanding the range of DFS. For example, very few solutions are being explored around insurance, despite its expected relevance to the market in Mozambique.

The Insurance Supervision Institute of Mozambique

Overview

The Insurance Supervision Institute of Mozambique (ISSM) is an insurance supervision body in Mozambique. The institute is responsible for ensuring the effective administration, supervision, regulation and control of the insurance industry in Mozambique. Financial inclusion is a primary objective of ISSM and they are contributing to this through the protection of consumers and producing inclusive insurance products. For example, in 2015 ISSM issued a notice to expand the regulation to include products that can be commercialized under the micro-insurance segment and lines of business, thus, providing organisations with the flexibility to innovatively design insurance products.

FSDMoç and The Insurance Supervision Institute of Mozambique (ISSM)

FSDMoç supported ISSM in designing the road map to ensure that the ecosystem in Mozambique is conducive for microinsurance. The implementation of recommendations on the road map is ongoing, based on the following pillars:

- Enabling the market to design microinsurance.
- Enabling the market to increase demand for microinsurance through consumer education.
- Increasing engagement with regulators to ensure an enabling regulatory environment for microinsurance.
- Fostering stronger partnerships with other stakeholders who are involved in process of providing microinsurance.

Impact on Financial Deepening

Micro-insurance represents an avenue to deepen financial inclusion in Mozambique, given the popularity of small-scale farming among rural households, for which it is known to be highly relevant. As such, the drive to expand the supply of micro-insurance products is a step in the right direction in terms of financial deepening.

Process Learnings and Recommendations

The agricultural sector hosts the majority of households in rural regions in Mozambique, most of which are currently unbanked. Based on this, it is worthwhile to divert more attention towards incorporating DFS into agricultural solutions that can serve the dual purpose of supporting local farmers and driving the adoption of DFS.

Central Bank of Mozambique

Overview

The Central Bank of Mozambique has the prime responsibility of governing the monetary policies of the country and has been at the forefront of driving financial inclusion policies.

FSDMoç and the Central Bank of Mozambique

Since its inception, FSDMoç has provided in depth training courses, delivered through partnerships with the Central Bank, which has filled a major gap by upskilling founders to take advantage of new technological developments in ensuring effective service delivery. An example of this is the sandbox incubation programme, which has supported notable fintechs such as Quick-e-pay, Pagalu, Paytek, Zoono and Socremo and Mukuru. FSDMoç's involvement with the sandbox has two main benefits: increasing the Central Bank's knowledge of the Fintech sector, and providing the startups with both technical and financial support, as well as a deep understanding of Mozambique's operating and regulatory environment, which have enabled them to garner much-needed buy-in from regulators and other key stakeholders.

Beyond this, FSDMoç has played a key role in soliciting for improved regulatory policies on behalf of Fintechs, some of which have contributed to the existence of a more enabling environment for startups to operate, the formation of an insurance ecosystem roadmap, and the establishment of interoperability between mobile money platforms.

Impact on Financial Deepening

Without a doubt, by virtue of the central bank's partnership with FSDMoç has contributed to financial deepening in Mozambique. The newly developed policies, support of fintechs and financial literacy campaigns have spurred the extension of financial services to underserved populations.

Process Learnings and Recommendations

FSDMoç and the central bank have an MOU. Based on this, their engagement has been smooth and without any challenges.