CDD. CENTRO PARA DEMOCRACIA E DESENVOLVIMENTO

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Bank of Mozambique in a race against time: effective implementation of the Financial Inclusion Strategy at risk of default

- A significant part of the 54 actions foreseen in the National Strategy for Financial Inclusion 2016-2022 (ENIF) have been "dragged" into the last year of implementation. With just under two dozen actions fully executed by 2021, the Bank of Mozambique is currently under pressure to operationalize the remaining planned actions and meet the established targets before the end of the current year.

Creditos: O País

There is less than a semester left to the end of the implementation period of what has been the main guiding instrument in the process of promoting access to and use of financial products and services in Mozambique. Approved in July 2016, the ENIF closes its second and final implementation phase this year, putting the Bank of Mozambique in a race against the clock to fulfill a significant part of the 54 priority actions that should have been executed over the six years the instrument has been in force.

With two implementation phases, the first comprising the period between 2016 and 2018 and the second between the years 2019 and 2022, the Government's ambitious strategy was structured around three main pillars, namely: (i) access to and use of financial services; (ii) strengthening of the financial infrastructure; (iii) consumer protection and financial education, reflected in a little over five dozen priority actions and three global targets that should be executed by the end of this year.

Approximately six years after the approval of the ENIF, progress is already evident in the project of building a financially included society in Mozambique, with more and more Mozambicans being able to access and make use of a diversity of financial services. However, making an analysis of the execution of the priority actions that had been programmed, and considering that this is the last year of its implementation, it is clear that much remains to be done, and that a large part of the activities were "dragged" to the last year of implementation, which increases the risk of their non-implementation.

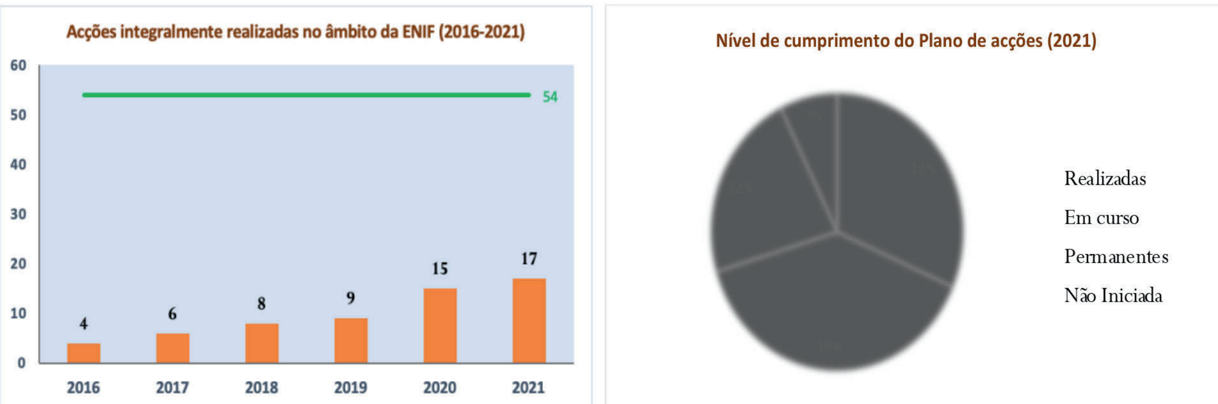
In all, 54 priority actions were approved in 2016, including specific ones and others of a more continuous/permanent nature. Among these, 31 of the actions refer to the access and use of financial services pillar, eight from the financial infrastructure pillar, and 15 actions refer to the consumer protection and financial education pillar.

In conceptual terms, the strategy had the necessary conditions for the fulfillment of the intended goals in terms of promoting financial inclusion, including, on the one hand, policies and priority actions and, on the other, mechanisms for monitoring, evaluation and coordination among the various stakeholders. The effectiveness of the strategy was conditioned by the slowness that characterized the process of implementing the actions.

In fact, excluding the approximately 12 actions of a more permanent nature included in the approved plan, by 2021 (the penultimate year of the strategy) only 17 actions initially programmed had been fully carried out, of which 21 were still in the operationalization process and the other four had not been started.

This result is not surprising considering the slow pace at which the actions were actually implemented. As the chart below illustrates, with the exception of 2020 where it showed a record of six additional actions as actually completed, between 2016 and 2018, the average number of actions shown as completed stabilized around two per year.

Chart 1: Actions fully carried out under the ENIF (2016-2021)



Source: Bank of Mozambique Financial Inclusion Reports (several years)

The very reports released annually by the Bank of Mozambique show the sluggishness that has characterized the plan implementation of the aforementioned strategy. One of the clearest examples of the lack of seriousness in the implementation of this important instrument is the fact that some actions that were supposedly started in 2016 continue to the present date (six years later), being recurrently marked as still being "in progress".

Examples of these actions are the following: (1) The proposal of a specific regulation on the opening and movement of bank accounts, including the reduction of the minimum age, and promotion of the basic bank account; (2) Development of financing, savings and payment products suitable for the low-income population, micro, small and medium enterprises and farmers; (3) Conducting an assessment of existing initiatives for rural finance, in order to improve and identify synergies with private initiative; (4) Making available on the Bank of Mozambique's website comparative information on commissions and other charges for the main Central Bank products. These are one-off measures that, since 2016, have been marked as being "in progress", however, still with no outcome.

Other actions even had defined deadlines. The most recent example is the establishment of the general interoperability of payments in Mozambique (resulting in the interconnection of the Mkesh, e-Mola and M-Pesa mobile wallets) which was announced last month by the Central Bank that was initially supposed to go live still in the first quarter of this year, meaning a delay of four months.

Even relatively less complex actions such as making available on the Bank of Mozambique's website statistics of consumer complaints against financial institutions supervised by the regulator, which in principle was supposed to take place still in the first half of the current year, were not actually carried out.

Besides almost a dozen actions marked as "permanent", but the activities carried out were sporadic and without reinvestment over the past six years, other actions are still marked as "completed", even though the goal initially set has not been fully achieved.

This is the case of the development of microinsurance products oriented to micro, small and medium enterprises, farmers, *mukheristas* (known tax avoidance movements), market vendors, and the low-income population. In fact, two microinsurance products were created in 2021, but they do not have a specific orientation as had been proposed, frustrating the expectations that had been created at the level of those economic agents.

The reasons for this slowness in the operationalization of the strategy and the consequent dragging of activities to the last year are several. In addition to bureaucracies in the approval of some legal instruments, there is also a lack of coordination between the three working groups responsible for operationalizing the action plan, a weakness that was even pointed out in the 2018 mid-term review conducted by the World Bank in consultation with the Bank of Mozambique, the Alliance for Financial Inclusion, representatives of the Bank of Ghana and the Bank of Uganda, and other public and private actors.

Six years of the ENIF: What gains in financial inclusion for Mozambicans?

Despite the delays that have characterized the ENIF implementation process, Mozambique has experienced considerable progress in financial inclusion over the past six years, with more Mozambicans able to access and make effective use of a wide range of financial services.

Indeed, an analysis of the most recent period clearly shows gains in terms of increasing financial inclusion per capita (demographic access), the effective use of financial products and services (usage), but also in terms of reducing the distance between the access points to financial services and products and the population (geographic access).

Overall, the main driver of financial inclusion in Mozambique has been the growth of mobile wallets, with the number of e-money accounts growing at a faster pace relative to bank accounts.

The table below shows Mozambique's progress towards the three overall financial inclusion targets set out in the ENIF. It shows that by the end of last year, Mozambique had achieved only two of the targets.

The target of 100% of districts with at least one point of access to formal financial services was reached, and the target of 60% of the adult population with access to non-bank financial services provided by Electronic Money Institutions (EMIs) was exceeded by 7.2 percentage points.

Indicators:	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 (Target)**
Proportion of the adult population with physical or electronic access to financial services provided by a formal financial institution	36,0 (bancos)	32,9	32,7	30,5	31,4	31,3	60
	44,0 (IME)	44,0	51,3	56,3	66,4	67,2	60
Proportion of districts with at least one access point to formal financial services	57,8	56,5	64,3	72,7	98,1	100	100
Proportion of population with an access point to financial services less than 5 km from their place of residence or work	NA	NA	NA	NA	NA	48	75

At the same time, the percentage of the adult population with access to a bank account has registered a downward trend over the past six years (to 31.3 percent), deviating even further from the target of 60 percent. In fact, more recent data from the Central Bank itself point out that this indicator registered another reduction during the first half of the current year, stabilizing at around 30.5%[1].

Another target with a low probability of being met is the one referring to the percentage of the population with an access point to financial services less than 5 km from their place of residence or work. An indicator that, even though the difficulties in measuring/monitoring it are known to be a priority, was adopted as one of the global goals of the strategy.

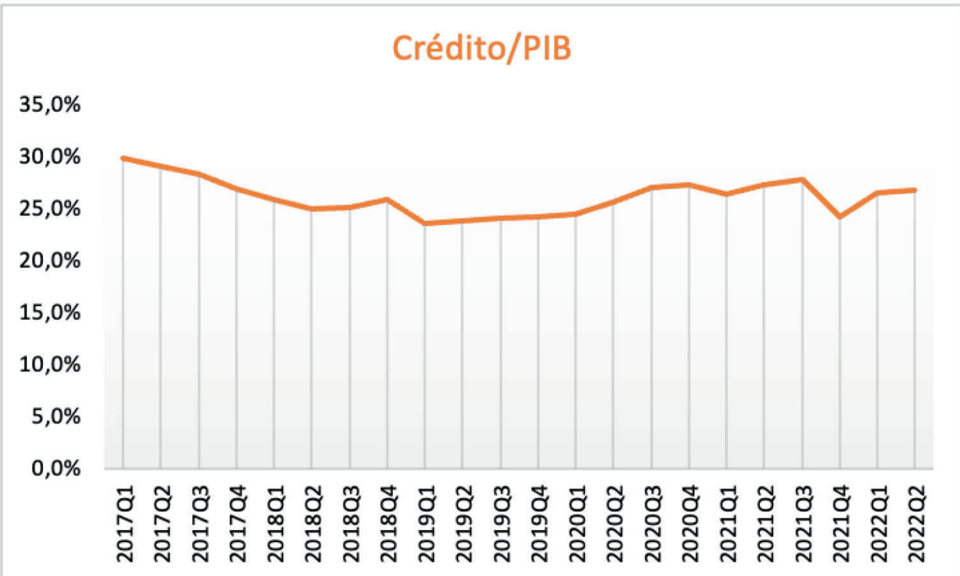
On the ENIF's contribution to generating equitable economic development

Financial inclusion is not an end in itself. The attention it has been receiving in the development agenda of countries, including Mozambique, is not limited to the simple use by economic agents of financial services, but rather to its potential in promoting long-term growth of the economy, being seen as a critical factor in economic development and strengthening the well-being of people [2].

Ideally, broad access to the products and services of financial institutions and the consequent channeling of savings into productive areas would contribute to equitable and faster development of countries, especially when the process provides the most vulnerable/marginalized segments with the possibility to access the financial system and thus increase their income.

This does not seem to be the case for the Mozambican economy. The data for the last five years even point to a reduction in financial intermediation, measured in terms of credit to the economy as a percentage of Gross Domestic Product (GDP), stabilizing at around 27%.

Chart 1. Evolution of financial intermediation (credit/GDP)



Source: Bank of Mozambique (several years)

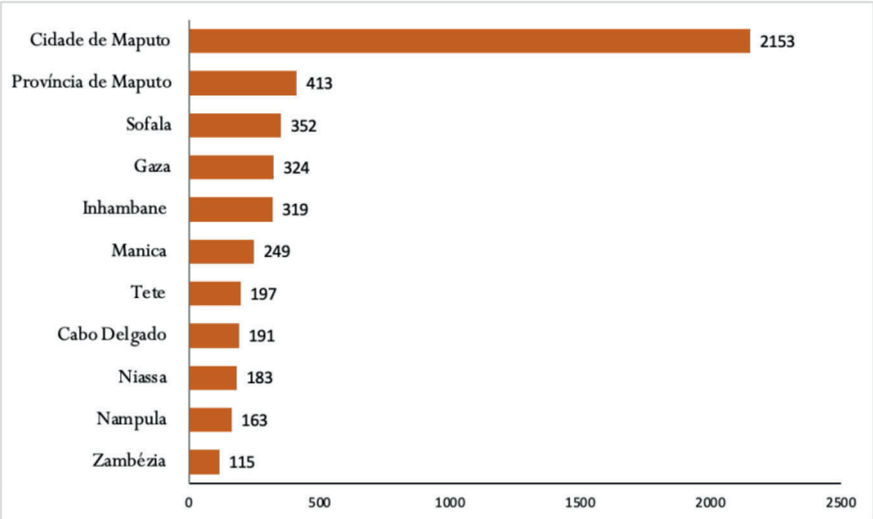
[1] Bank of Mozambique (2022). Indicators of Financial Inclusion 2022Q2. Available at https://www.bancomoc.mz/fm_pgTab1.aspx?id=354

[2] Aslan et al. (2017). Inequality in Financial Inclusion and Income Inequality. International Monetary Fund. Available at https://www.imf.org/-/media/Files/Publications/WP/2017/wp17236.ashx

Considering that the core of the whole financial inclusion process is precisely to provide families and companies with greater access to resources to borrow to finance their consumption and investment, thus increasing the level of economic activity, the gains achieved with the implementation of the ENIF were probably particularly limited.

In fact, the government's strategy merely reproduced the inequalities that already existed with regard to access to financial services. That is, if on the one hand the instrument succeeded in increasing the level of financial inclusion of Mozambicans, on the other, it failed to reduce spatial and inter-group inequalities. Contrary to what was expected, it was unable to increase the welfare of individuals who are outside the financial system (mainly low-income groups) by promoting access to the products and services of financial institutions.

Chart 2. Bank Accounts per One thousand adults in 2021.



Source: Financial Inclusion Report (2021)

In effect, and reflecting the pattern of wealth distribution in Mozambique, the provinces in the south of the country, especially Maputo City, continued to show the highest levels of financially included individuals. This reality is made evident when we analyze, for example, the level of banking in the provinces, measured by the number of bank accounts per 1,000 adults.

The "reproduction" of inequalities occurs not only in geographical terms, but also at the level of groups. This is the case of women who, after six years of interventions aimed at increasing access to and use of financial services, continue to be significantly under-represented in terms of account ownership in the financial system.

In fact, the percentage of bank accounts with female holders in relation to the adult female population has stabilized at around 19% over the last six years (below the target of 25%), compared to around 44% of bank accounts with male holders in relation to the total adult male population[3].

In conclusion, inequality in financial access, and in particular gender differences in financial inclusion, can affect income inequality directly and indirectly. They can affect income inequality directly by enabling economic participation, providing access to productive tools, and hel-

[3] Bank of Mozambique (2022). Indicators of Financial Inclusion 2022Q2. Available at https://www.bancomoc.mz/fm_pgTab1.aspx?id=354

ping to improve economies of scale.

It is also possible that gender disparities in financial inclusion are the result of other types of disparities (in education and health), which affect income inequality directly or indirectly through their impact on female labor force participation.

In this context, most likely the increases in average financial inclusion scores that have been reported in recent years may be driven by a smaller, identified group of individuals intensifying their use of financial services, exacerbating inequality in financial inclusion.

These are challenges that have not found an answer in either the ENIF or the Financial Sector Development Strategy (EDSF) which is also in its last year of implementation. The ENIF is, in fact, an evolution of the EDSF. Approved in 2013, this Strategy, with more general and less monitorable objectives, also aimed at improving access to financial services and supporting inclusive growth.

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