Access to Finance for Mozambican SMEs
Constraints Analysis

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# Table of Contents

Acknowledgements ............................................................................................................. 2
Table of Contents .................................................................................................................. 3
Acronyms and Definitions ...................................................................................................... 4
Executive Summary ............................................................................................................... 5
Introduction .......................................................................................................................... 6
Background and Context ........................................................................................................ 6
  Gas and Oil industry in Mozambique .................................................................................... 6
  Business Enabling Environment ........................................................................................ 7
Methodology ......................................................................................................................... 8
Literature Review .................................................................................................................. 9
Research Questions .............................................................................................................. 9
Results .................................................................................................................................. 10
  Access to Finance Landscape in Mozambique ................................................................. 10
Constraints ........................................................................................................................... 13
  Cross-Cutting Constraints ............................................................................................... 13
  Constraints Faced by SMEs .............................................................................................. 14
  Constraints Faced by the Banking Sector ........................................................................ 15
  Constraints Faced by the Government .......................................................................... 18
  Constraints Faced by Donors ......................................................................................... 20
Conclusion ........................................................................................................................... 21
Recommendations ............................................................................................................... 22
  Short-term ......................................................................................................................... 22
  Medium-term ..................................................................................................................... 23
  Long-term ......................................................................................................................... 24
Annexes ............................................................................................................................... 26
  Annex 1: Literature Review ............................................................................................. 26
  Annex 2: List of Interviewees ......................................................................................... 36
  Annex 3: Survey Questions and Results ......................................................................... 37
    SMEs ............................................................................................................................... 37
    Donors ............................................................................................................................ 45
  Annex 4: Interview Protocol ......................................................................................... 48
    SMEs ............................................................................................................................... 48
    Donors/Government .................................................................................................... 50
    Banks .............................................................................................................................. 52
Bibliography .......................................................................................................................... 54
## Acronyms and Definitions

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>AgDevCo</td>
<td>DfID's Agriculture Development Company</td>
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<tr>
<td>CPI</td>
<td>Center for the Promotion of Investment</td>
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<tr>
<td>CTA</td>
<td>Mozambican Confederation of Economic Associations</td>
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<tr>
<td>DCA</td>
<td>USAID's Development Credit Authority</td>
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<tr>
<td>DfID</td>
<td>UK's Department for International Development</td>
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<tr>
<td>DUAT</td>
<td>Duration of the Right to Profit from the Land – Land use rights</td>
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<tr>
<td>EHS</td>
<td>Environment, Health and Safety</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IOC</td>
<td>International Oil Company</td>
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<tr>
<td>IPME</td>
<td>Institute for the Promotion of Small and Medium Enterprises</td>
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<tr>
<td>KFW</td>
<td>Germany's Development Finance Institution</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multi-National Companies</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>NOC</td>
<td>National Oil Company</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>SDP</td>
<td>Supplier Development Program</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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Executive Summary
As of 2012, nearly 100 Trillion cubic feet (Tcf) of natural gas had been discovered in Mozambique, which will position the country among the top 15 producers in the world, with a potential influx of over $25 billion in investment in the next 5 years. This landscape presents a short window of opportunity for Small and Medium Enterprises (SMEs) to benefit from the extractive industry value chain. Accessing external financial resources will be a key factor for SMEs to secure procurement opportunities.

This research sought to identify the most binding constraints to lending in order to make a broad set of recommendations for a wide range of actors in the financial sector, with the intended result of improving the access to finance landscape. The team considered the perspectives of multiple relevant stakeholder groups (SMEs, banks, government agencies, and international donors) in order to craft a holistic understanding of the current financing landscape and its constraints.

The following constraints were considered the most binding based on both the frequency with which they came up in the research as well as their relevance given the team's previous research:

- **Low levels of SME capacity**: Most stakeholders recognized that the greatest constraint to lending to SMEs is the SMEs themselves. Specific issues included low levels of technical expertise and managerial experience relating to documentation requirements and financial records.
- **Informational Asymmetries**: There is a lack of information flow between all relevant stakeholders that inhibits the financial system from functioning efficiently.
- **Collateral**: Given the restrictions on land ownership, SMEs struggle to meet banks' high collateral coverage requirements.
- **Prohibitive interest rates**: Interest rates in excess of 17% are too high for most SMEs to even consider seeking external financing. Contributing factors include high cost of capital, high levels of business risk, and a lack of competition and liquidity in the banking sector.
- **Lack of alternative financing schemes**: Progress has been slow in the creation of alternatives to bank financing because of the government's lack of experience regulating these kinds of mechanisms and poor donor coordination to work through the bureaucracy.

In order to address these constraints, this report contains a set of ten recommendations for SMEs and the finance sectors. The highest priority should be the following:

In the short term, PYXERA Global should collaborate with banks to develop tools that will ease the evaluation process of loan applications for companies. The organization has several initiatives underway that are increasing the flow of information between SMEs and banks, but it will be crucial to ensure that these are designed with banks’ input.

In the medium term, PYXERA Global should expand its current business services' training initiative for SMEs participating in the Supplier Development Program (SDP). Building on the partnership with banks, the SDP should train businesses in the most relevant technical and managerial capacities to not only help qualify for funding but also to raise the level of professionalism overall to meet the standards of international corporations.

In the long term, stakeholders need to coordinate efforts to create alternative financing mechanisms to the banking system for SMEs. Giving businesses more options for financing will not only help them grow faster but also hopefully catalyze reform in the banking sector that also addresses these needs and captures the available profit in this market.
Introduction

Access to finance is a pivotal issue for Small and Medium Enterprises (SMEs) seeking to work in the emerging oil and gas industry in Mozambique. Investments from foreign oil companies are expected to reach levels exceeding the country’s 2013 GDP over the next 5 years. This offers a short window of opportunity for local businesses to qualify for procurement opportunities in the natural gas value chain. In order to facilitate this process, internal business upgrades are necessary, but oftentimes, they are unable to obtain reasonably priced financing to make those improvements. This dilemma of exclusion is preventing many Mozambican SMEs from taking advantage of business opportunities stemming from foreign direct investment, which limits the overall benefit that the country receives from these megaprojects.

PYXERA Global has been contracted by an International Oil Company (IOC) holding drilling rights in Northern Mozambique with the goal of preparing local SMEs for its procurement process. This Supplier Development Program (SDP) includes a due diligence process, which ensures that companies have all necessary documentation; supplier information events, which highlight upcoming opportunities for SMEs in natural gas projects; and training seminars, which cover various topics such as business registration, Environment, Health and Safety (EHS), business plan development and others. As part of this project, a research team of Master's degree candidates from the Elliott School of International Affairs at the George Washington University was contracted to complete the following analysis of the constraints in the financing landscape that will be used to help guide the formulation of future programmatic offerings.

This report presents the findings of the team’s research. While parts of it are specifically tailored toward supporting PYXERA Global’s operations, it also considers the situation of the business environment and financial sector as a whole and offers broader recommendations that could be executed by other stakeholders. The report begins with a brief review of the context and previous literature relevant to the topic. It then explains the team’s methodology before reviewing the results of the constraints analysis. Finally, the team offers its recommendations to address the systemic issues that are limiting the flow of capital to SMEs.

Background and Context

Gas and Oil industry in Mozambique

A former Portuguese colony situated on the eastern coast of Africa, Mozambique enjoys an abundance of natural resources, amongst them oil and natural gas. As of 2012, nearly 100 Trillion cubic feet (Tcf) of natural gas had been discovered, which will position the country among the top 15 producers in the world over the next decades (SPTEC Advisory, 2012, p. 6). Oil exploration is also prevalent on a much smaller scale, albeit sufficient enough to allow South African petrochemical company Sasol to launch production in 2014 (Macau Hub, 2014).
It is noteworthy that oil and gas explorations have experienced setbacks due to the civil war that plagued the country for 16 years. However, given the relative peace since 1992, there has been renewed interest among IOCs (Oil & Gas Mozambique, 2012, p. 1). In its attempts to leverage the natural resource discoveries, the Government of Mozambique has levied a 32% tax on the future sale of local assets (Oil & Gas Mozambique, 2012, p. 11). Additionally, it has mandated companies to “give preferential treatment to the purchase of local goods and services when such goods and services are internationally comparable in terms of quality, availability, and quantity required and are offered at prices inclusive of taxes not higher than ten percent of the available imported goods” (National Petroleum Institute, 2004, p. 19).

Business Enabling Environment

Despite the aforementioned government efforts, numerous challenges exist in the business enabling environment, with the macroeconomic context partly culpable. Mozambique ranks below the regional average on the World Bank’s (WB) Doing Business index, at 139 out of 189 countries. The most prevalent issues facing the country are resolving insolvency, enforcing contracts, and registering property. The World Economic Forum (WEF) also depicts a similar situation. Among 148 economies ranked on its Global Competitiveness Index, Mozambique is 137th. Relevant issues include poor access to finance, corruption, and inefficient government bureaucracy (Schwab & Sala-i-Martín, 2013, p. 286).

With respect to access to finance,¹ the most recent WB Investment Climate Assessment shows that credit penetration among SMEs is low and has been declining. Plagued by interest rates of up to 30%, collateral requirements of up to 300%, and a lack of lending products tailored to SMEs, formal bank financing is often inaccessible to these enterprises. From a macroeconomic perspective, Mozambican banks are hesitant to lend due to weak mechanisms in enforcing contracts within the country, which is further compounded by lack of borrower information. Although Mozambique has a public credit registry, it only covers 2% of the population, information that is collected is not comprehensive or cross-referenced, and there is a 3-week lag in retrieving borrower information. Other macro conditions that limit lending include weak accounting standards and lack of qualified accountants (Roberts, 2003, p. 6).

Land ownership is another barrier limiting improvements in the enabling environment. Land is owned exclusively by the state and is nontransferable; however, it can be obtained for economic purposes through use rights called DUATs. DUAT transfers are authorized only if an improvement or structure has been built on the land, but the authorization is highly subjective because of a lack of stipulated regulations (Nathan Associates, 2007, p. 70). This poses significant problems both in terms of incentivizing productive use of land as well as limiting its value as a form of collateral.

Resolving insolvency was noted as a challenge to the business enabling environment by both the WB's Doing Business and WEF. Although the country revised its bankruptcy laws in 2009 based on

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¹ Access to finance, for the purpose of this study, will henceforth refer to the ability of SMEs to access business capital, rather than the more broad definition of inclusion in the financial sector as a whole.
international best practices (and particularly the Brazilian model), much remains to be done, especially in areas such as the training of judges and other legal professionals in its implementation and its adaptation to the Mozambican context (World Bank, 2014, p. 50). According to the Doing Business Report, it takes 5 years to close a business, resulting in a recovery rate for the banks of 16.6 cents on the dollar after a bankruptcy. This is further complicated by the high cost of enforcing contracts through the courts, which takes an average of 950 days and costs 119% of the claim (World Bank, 2014, p. 13). These issues present great disincentives for banks to lend to SMEs due to the high probability of failure of small businesses, and therefore their inability to recover their capital.

Finally, the issue of corruption is identified by the WEF as one of the most problematic factors in conducting business in Mozambique. 25% of enterprises in the World Bank's Enterprise Surveys also perceive it to be a binding constraint (International Finance Corporation, 2007). Findings from the World Bank Investment Climate Assessment denote that across different categories of firms, the burden of corruption is greatest on SMEs (World Bank & International Monetary Fund, 2009).

Methodology

The team's research consisted of a multi-step process culminating in a two-week field study to solidify the perspectives and opinions received.

As an initial phase, an extensive desk review of literature relating to both the Mozambican context as well as access to finance theory and practice was conducted between December 2013 and January 2014.

The next phase of the research consisted of an electronic survey sent out to a wide range of stakeholders including SMEs, banks, and donor agencies in February 2014. The SMEs participants were selected from PYXERA Global's existing database of companies, which is made up of potential suppliers to the LNG project. The team accepted a broad range of businesses under the characterization of “SME,” and primarily based the designation on a company's ability to qualify as suppliers in the oil and gas value chain rather than a more traditional, strict definition based on revenue or number of employees. Participants from other stakeholder groups were a combination of contacts from both the organization's and the team members’ experience in Mozambique.

The final phase of research was a two-week field study in March 2014 conducting semi-structured interviews with a broad range of stakeholders including SME executives, bank officials, donor representatives, and government agencies. The team sought to gain a full spectrum of perspectives in order to piece together a more complete picture of the landscape. There exists some selection bias in the sample of SMEs, as they are, for the most part, companies that have taken the initiative to become involved with PYXERA Global's SDP program. At the same time, this sample provides an accurate representation of the types of companies that are able to work in the oil and gas value chains.
The 2012 draft FinScope survey presents a general overview of the financial inclusion situation in Mozambique. The survey set out to describe the business sector with particular interest in micro, small and medium enterprises and their financing needs. It found that the overwhelming majority of businesses in the country (93%) are solely for self-employment, and most are founded out of necessity rather than opportunity. Only about 10% of businesses are active in the formal banking sector. Given the low percentage of businesses on the larger end of the SME spectrum, the authors did not recommend further investigation of these enterprises. However, because these are in the pool of businesses that will engage in the oil and gas sector, more research on them is necessary.

Additional studies have been conducted recently that specifically focus on the micro and SME sectors in Mozambique and the challenges that they face. Gonçalves and Chiappetta (2011) investigated the barriers faced by micro and small enterprises, and found that funding, including accessing bank loan services as well as other guarantee programs, was one of the two most common issues faced by these groups. Louis and Macamo (2011) also investigated Mozambican small businesses, specifically in Maputo with a focus on factors constraining their growth. They found that 79% of respondents considered access to finance to be “difficult” or “very difficult,” and that these financial barriers were one of the most common setbacks for small enterprises.

Research Questions

The research team builds off of the above literature and adds a further dimension. Beyond just accepting that access to finance is one of the biggest constraints for smaller enterprises, the team seeks to understand the fundamental causes of access to finance constraints among SMEs operating within the natural gas sector through the following key research questions:

Additionally, the team sought to understand the following:
- What initiatives are currently underway to alleviate these issues?
- What other kinds of initiatives or activities would be desirable and beneficial?

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2 See Annex 1 for full Literature Review
The results that follow seek to answer these questions with the aim of formulating recommendations leading to informed policy reform and effective programmatic decisions to address the current landscape.

Results

The surveys\(^3\) administered prior to the in-country field study elicited responses from 37 SMEs serving the natural gas value chain including construction, business service providers, and other secondary service companies. The SMEs were spread throughout Mozambique, the majority being from Maputo, with Pemba, Nampula, and Matola also represented. The majority was Mozambican-owned, employed up to ten workers, and had been in operation for 3-5 years. All businesses used banks in some capacity, but primarily for deposit accounts. Close to 60% of respondents had applied for a loan recently, and 67% of those were approved. The average amount sought in loans ranged from 1.5 million to 15 million Meticais\(^4\) (roughly USD$48,000-$480,000). Expansion and purchase of equipment were the primary reasons for seeking a loan.

With respect to donor agencies, the team received responses from 13 former and current employees. There was general consensus that interest rates are prohibitive, loan officers have limited capacity to evaluate applications, and macro-level constraints were thought to be the least constraining factor for SMEs.

The semi-structured interview phase of the study included participation from 15 SMEs, 6 banks, 5 donor agencies, the Central Bank, and two other government agencies. The results that follow represent the views of these stakeholders.

“[Accessing Financing is] prohibitive for SMEs which eliminates the possibilities of expansion and growth, thus affecting job creation, income generation and consolidation of a class of SMEs which are the guarantee of inclusive development.”

Survey Response

Banks and Services

There is a high level of concentration in the Mozambican banking sector. Because the major players (Millennium BIM, BCI, Barclays, and Standard Bank) with an established market share and customer base have less incentive to diversify their activities, SME participants commonly found them hard to work with. Millennium BIM, which is the largest bank in the country because the government uses it

\(^3\) It is noteworthy that no banks or government officials responded.

\(^4\) As of May 11th, 2014 USD$1 was equivalent to 31.3 Meticais
for distributing its contracts and payroll, has the largest number of SME clients due to its reach rather than its services. Instead, the SMEs preferred to use some of the newer banks, such as MozaBanco and Banco ABC, for their businesses, which were more in line with their needs.

With respect to commercial banking services that SMEs utilized, a surprising percentage only had basic checking accounts and used them for everything from buying materials to paying salaries. A minority of companies also used term or overdraft loan services, but for the most part, SMEs opted to self-finance their companies with retained earnings, and therefore, grew slower, but avoided high debt burdens.

Overall, there was a high level of dissatisfaction with the banking sector on the part of SMEs. They did not perceive banks as interested in lending to them or being flexible in providing services useful to their businesses. From the banks’ perspective, they sometimes faulted the businesses for not being more active in seeking out opportunities that do exist, but only by request, like interest deferment or letters of credit. Ultimately, the information from both sides is getting lost before it reaches the other, leading to misunderstandings and unrealistic expectations.

Credit Guarantee Schemes
Extractive companies in Mozambique have made arrangements with banks that allow their contracts to serve either as collateral or as qualification for lower interest rates when a subcontractor seeks credit. This had mixed results with Vale, due largely to underutilization and program design. USAID’s Development Credit Authority (DCA) at Banco Opportunidade had similar problems with underutilization due to its *pari-passu* risk sharing. Banks stated a continued interest in such funds because they greatly reduced the risks of lending to SMEs, but that they would only lower the collateral requirements rather than the interest rate of the loan. Overall, the impression was that a public guarantee system from the federal government (most likely the Ministry of Finance and not the Central Bank) would have positive impacts.

Technical Assistance
Technical assistance is widely recognized as the biggest need of SMEs, which face serious capacity issues in management and financial functions, as well as technical skills. The most relevant previous project was the IFC’s MozLink program that sought to promote market linkages for SMEs to the major industrial companies in the country. Through activities such as assisting SMEs in improving their safety, quality, and management capacity, as well as attempting to facilitate the flow of information amongst stakeholders, this program was able to increase contracts won by local companies by 40% from 2007 to 2008 and generate over $20 million in revenues for participating SMEs (IFC, 2008). However, one key shortcoming was its inability to establish formal links with banks and the financial sector in order to improve the access to finance (Ernst & Young,
2010). This greatly inhibited the project's tangible effects, and a third phase of the program is struggling to get off the ground. DfID and KFW are both exploring programs to address some of these needs, although they will primarily be focusing on SMEs in the agriculture value chains.

**Alternative Financing Mechanisms**

Given the widespread restraints to formal bank lending, donors expressed interest in exploring non-bank alternatives for SME financing. Several groups have tried to set up fund-like entities, but have encountered serious hurdles both in the formation and implementation phases. For example, in 2007 the IFC launched the Mozambique SME Initiative, a risk capital fund. The project made investments of USD$100,000 to USD$1 million and provided technical assistance to the 20 SMEs approved for funding. However, delays in the distribution of money prevented the SMEs from accessing funds in a timely manner, causing them to look for financing elsewhere. Management of the fund was subsequently transferred to a South African company but failed to take off due to long delays in Central Bank approval. AgDevCo (sponsored by DfID) has mitigated a few of the strict Central Bank requirements by issuing “repayable grants” rather than loans. GAPI, a public-private partnership that provides financing for SMEs, has been able to gain some traction as well, but it is regulated like a commercial lender, preventing it from lending the majority of its capital. The AfDB, KFW and IFC all also expressed interest in pursuing an initiative along these lines, but had not progressed enough in the planning phase to provide much information of their approaches.

**Government Activities**

The government also has several agencies that could or should be reacting to these issues. The Institute for the Promotion of Small and Medium Enterprises (IPEME), created in 2010 to provide business development support to Mozambican SMEs, was presented as the champion of small business issues, but it faces serious capacity challenges. It is working towards implementing technical assistance and support to business owners. The Center for the Promotion of Investment (CPI) is another organization with the mission of attracting domestic and foreign investment to spur economic growth in the country (CPI, 2014). One of the organization's strategic objectives is the promotion of linkages between domestic and foreign companies, and most notably works with IFC's MozLink program. It is noteworthy, however, that while the majority of SMEs knew of these agencies, they were not familiar with their services or objectives.

**Other Programs**

Donor influence and involvement across Mozambique is significant. From 2010 to 2012, official development assistance inflows steadily increased to approximately $2.1 billion per year, with the United States’ topping the list with an average contribution of USD $417 million (OECD, 2012).

Donors revealed a keen interest in access to finance issues and are embarking on new, related programs. DfID, KFW, the African Development Bank (AfDB), and the IFC all expressed experience and/ or interest in pursuing activities in this field, although it is important to distinguish between programs that will focus on businesses and those that target individuals. The following discussion outlines past and present projects undertaken to better serve SMEs in Mozambique.

### Top 5 Donors in Mozambique  
Gross ODA 2011-2012

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<th>Country</th>
<th>USD Million</th>
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<tr>
<td>United States</td>
<td>417</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>174</td>
</tr>
<tr>
<td>IDA</td>
<td>168</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>163</td>
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<td>Portugal</td>
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Constraints

The following sections present the main constraints that each relevant stakeholder group faces with respect to borrowing, lending, or promoting SME access to finance.

Cross-Cutting Constraints

As the research progressed, desk and field research shed light on constraints that are mutually shared and relevant to all stakeholders partaking in this study. These include information asymmetry and collateral requirements.

Information Asymmetries

Information asymmetries consistently emerged as a constraint to SME access to finance. Interviews with SMEs revealed lack of knowledge about SME-specific products and services provided by both banks and SME supporting organizations. It is unclear whether this is a symptom of lack of outreach from banks and service providers or lack of effort on behalf of SMEs to seek out the needed information. Similarly, given the lack of functioning credit bureaus, banks are unable to obtain sufficient information regarding SME clients’ credit worthiness. Three donor interviewees indicated low SME participation in donor programs focused on increasing access to finance through such vehicles as guarantee funds and risk capital funds. Additionally, duplication of efforts among donors emerged throughout the course of the semi-structured interview phase of the study. This indicates an overall gap in communication between the various stakeholders involved in the SME access to finance space in Mozambique.

Collateral Issues

Collateral requirements for loans also impact multiple stakeholders. SME survey respondents indicated that the most common reason they were not approved for a loan was lack of collateral. Banks seek to mitigate the risk of lending to SMEs by requiring high coverage on collateral (which differs by bank, ranging from 75% to 300%), but they encounter problems when it comes to evaluating and collecting, which only drives up rates. Government ownership of land and a burdensome procedure to register title deeds limit the available forms of collateral to property and equipment. According to one SME interviewee, an overheated property market exacerbates these problems, as bank appraisals of property are often behind in valuation and thus the current purchasing price, reducing the value of collateral. The acceptable forms of collateral can vary widely by banks as they seek to offer services to SMEs in more creative ways. One bank went as far as noting that if they can evaluate it, they will accept it, allowing anything from cars to contracts to be used as security. Others, however, are unable or unwilling to do so due to the increased risk.

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5 Land here refers to the physical area, which under Mozambican law cannot be owned. On the other hand property here refers to the physical structures on the land, which can be used as collateral.
Constraints Faced by SMEs

The survey responses shed light on the other most constraining factors that SMEs face in accessing finance, including high interest rates and a bureaucratic and burdensome application process. The interviews held with SMEs in Maputo and Pemba reinforced these findings. The perspectives from other stakeholders offered several other relevant constraints included below.

High Interest Rates

SME survey respondents identified high interest rates as the most constraining factor in accessing finance. According to SME and bank interviewees, interest rates on loans in meticais ranged from 17% to over 30%. In the SME interview sample, this was again identified as the greatest deterrent for why the respondents chose not to borrow from banks. The most common source of funding, then, is self-financing through personal savings or retained earnings. According to one interviewee, “We choose to grow slower because the cost of money is so high.” As such, growth and dynamism of the SME sector is stifled by the high cost of financing. Bank interviewees agreed that interest rates were a prohibitive factor, but did not consider it the greatest hurdle SMEs face.

Low SME Capacity

Several interviewees noted that lack of capacity among SMEs emanated from low levels of managerial training. There is a learning curve implicit in transitioning from a command to a market economy, as Mozambique did in the early 1990s. Business-centric concepts, which influence the working culture, are still being adapted. Bank interviewees expressed frustration with the lack of significance SMEs attributed to detailed financial record-keeping and official documentation that would reflect a clear understanding of the market in which a business operates, and the strategic direction of the business. This observation was echoed by an entrepreneur, who shared the belief that Mozambican SMEs would benefit from more managerial training stating, “You have to create the right mindset that drives the business forward.” However, one interviewee pointed out that participation of SMEs in mega projects is creating opportunities to professionalize in striving to comply with the standards expected by foreign companies.

Lack of Affordable Business Service Providers and Other Supporting Institutions

Given the lack of capacity among SMEs and high documentation requirements for obtaining a loan, the researchers inquired about access to business service providers during the interviews. All stakeholder groups expressed that SMEs are priced out of the market for these services, since the majority of known business service providers are large consulting firms (e.g. Ernst and Young) catering to similarly large corporations. This limits access to professional, external assistance necessary for supplying technical trainings as well as guidance through the required documents.
more SME-focused banks (e.g. BancoABC) are attuned to this gap and devote additional resources to assisting SMEs. However, as one bank interviewee stated, “The bank’s strategy is not only to sell, but to be a consultant...But when you have to manage so many clients, you cannot consult everyone. You have to balance profitability and put your money where your mouth is.”

Additionally, several SMEs noted a lack of supporting institutions. As previously noted, they could name specific organizations, such as CPI and IPEME, but did not know each institution’s exact purpose. In other instances, SMEs and donors perceived these institutions to be ineffective at meeting SME needs. This hinders organization through network formation within the SME sector, in turn undermining the collective bargaining power of Mozambican SMEs.

**Documentation Requirements**
Stakeholders repeatedly identified high and strict documentation requirements as a significant constraint, which take a minimum of 9 procedures, higher than the regional average (World Bank, 2014). SMEs generally noted that banks require too many documents, which lengthens the process of obtaining a loan. Additionally, the types of required documents are either not easily available or understood by SMEs. They also indicated that the type of paperwork demanded by banks seems to be more appropriate for a large company, rather than an SME. Bankers stated that they only require the same documents as the government uses to officially formalize a business, although some did acknowledge that those documentation requirements were very difficult for an SME to comply with. Additionally, some bank interviewees identified lack of valid and transparent financial records, elicited by the business’ intention to avoid paying higher taxes, as a common limitation in assessing the actual profitability of a business.

**Delayed Payments**
One final constraint recognized by stakeholders was delayed payments for services rendered, from both the government and large multinational corporations (MNCs). This contributes to constrained and irregular cash flow, which impacts an SME’s ability to comply with the repayment schedule of a loan and increases the risk premium for the bank.

**Constraints Faced by the Banking Sector**
Under the current structure of the financial system, there are only two practical mechanisms for financing a business: independently (self-financing and retained earnings) or bank loans. According to donor agencies, other tools that have been effective elsewhere such as microfinance or grants have not had the same impact in this market. While high interest rates have been noted as a constraint faced by SMEs, the factors that cause this are among the key constraints faced by banks. Others include efficiency issues within the system and internal capacity...
challenges.

**High cost of capital**

Banks identified the high cost of capital as their most significant constraint in SME lending, but the facts were inconsistent. The Central Bank of Mozambique has set its overnight lending rate at 8.5%, a reduction of 2% over the last five years (Macau Hub, 2009). A Central Bank discount window does exist for the banks to borrow from in, but according to one interviewee, it is only sporadically open and generally unreliable. Most of the banks interviewed claimed that they could not receive capital for anything less than 10% (in Meticais), with the average rate quoted at around 14%.

It is noteworthy that the national social security and pension funds, and to a lesser extent, external sources such as the IFC and the AfDB, are major lenders to Mozambican banks. The liquid government entities are the largest lenders to the banks, but only lend at 14%, despite the Central Bank’s recommended rate of 8.5%. External sources were noted to play a significant role in reducing the cost of capital (the rate of borrowing in USD was 5%-7% to the banks); however, their supply was insufficient to cover market needs. Additionally, conversion to Meticais can be costly to the bank, and even more so for SMEs. A final factor affecting the cost of capital was the physical infrastructure of the country. One bank noted that transport of physical bills to remote branches results in three days of lost interest, which must then be made up through higher interest rates to customers.

**Low liquidity**

Another constraint identified by interview respondents is low liquidity in the banking sector, which compounds the high cost of capital discussed above. In Mozambique, the four largest banks control 80% of the market (Banco Espirito Santo, 2012). But, rather than lend to the smaller banks and earn 10-14% on investment, some bank participants expressed concern that these banks hold their money because they do not wish to lose market share to their competition. In order to combat this, smaller banks are offering interest rates between 8.5% and 14% on deposit accounts to increase their reserves. Lending to high-risk consumers also limits liquidity of the banking system due to higher provisioning due to write-offs. Therefore, the circulation of money in the country is constrained, rendering the banking system inefficient.

**Competition**

Competition within the Mozambican banking sector arises in several different manners, all of which put a further strain on an already weak system. The sector as a whole has relatively low competition with the concentration of activity and market share in the hands of four major players. This, partly, causes the aforementioned low liquidity and also contributes to other capacity and internal issues as discussed below. Secondly, this has caused complacency, as the smaller, newer entrants have been unable to capture new customers and activities in the SME sector without affordable capital to lend and the larger banks unwilling to take risks in this sector. The Central Bank stated that there need to be more banks entering the market in order to increase competition and capital flow. The illiquidity issues are also a result of a different type of high competitiveness that exists at the same time within the system: large banks refuse to lend to the smaller ones out of fear of losing market

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6 “The discount window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a reliable backup source of funding” (Board of Governors of the Federal Reserve System). In the US system, this is a lender of last resort for the banking institutions.

7 Loans are available to borrowers in USD, but in order to pay suppliers the SMEs must then convert the dollars into Meticais, which is often a large burden, both financially and time-wise, and offset the advantages of a lower interest rate.
share, despite the possibility of high profits. This dichotomy greatly inhibits the efficient functioning of the system and severely limits SME growth.

**Lack of interest in lending**

The interest of the banks in lending to SMEs elicited various opinions from different stakeholders. The SMEs, almost universally, believed that the banks were completely disinterested in lending to them. One common support for this view was the lack of tailored products to fit the needs of SMEs’ operations. One third of the SMEs indicated that they had been contacted by their bank and offered a line of credit, but all refused this request, as the terms (interest rate, loan period, etc.) did not fit with their business needs.

Alternatively, the banks all expressed high interest in lending to this segment of the market. Most banks had some form of dedicated SME departments\(^8\) and said that they were conducting market outreach. Banks, especially the newer and smaller ones, identified SMEs as an important market for them to engage. One interviewee noted that their lending officers visit with SMEs on a recurrent basis during the initial application phases in order to assist in compiling the proper financials for assessment. The interviewee noted that their lending officers do not limit their engagement with the SME sector solely to formal entities, but they also visit informal business dwellings to encourage them to work through commercial banking institutions. Three of the larger banks, however, were less interested than smaller banks in this market due to their established position and not needing to diversify their activity base. The historical performance of their SME portfolios has been poor due to high default rates, and therefore, they are not actively seeking out opportunities. For example, one bank said that their default rate among SME loans was 15%, when a typically acceptable rate is 1-3%. This forced the bank to restructure in 2003, and it has been reluctant to re-enter this market.

**Lack of specifically tailored SME loan products**

Despite increased interest amongst banks to tap into the SME market, there is a lack of tailored products to serve SME needs. When discussing this issue, the majority of bankers said that there was an entire range of products available to SMEs, and that the business owners just did not know what to ask for. In reality, this range of products was their standard set of corporate products available to large businesses, which they are retrofitting to meet small business needs. When business owners were asked what they needed, the most common responses were longer-term loans as well as products with a deferral period, especially when purchasing equipment, given that the return on investment period for such purchases takes longer to become profitable. One bank, when asked about these needs said that the products exist, but that no one had ever asked for them before, which furthers the notion that there is a great asymmetry of information in this market.

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\(^8\) The definition of an SME department varied by bank, as did the definition of an SME. Some included microenterprises in the SME segment, others had a very broad definition of an SME which would typically encompass large enterprises as well. But in general the large banks had some staff dedicated to serving this market.
Low capacity to evaluate SME applications and risk

The final major constraint is the lack of capacity of loan officers to properly evaluate an SME. This constraint is also related to the information asymmetry noted earlier especially in a system with no credit scoring or collateral registry. Banks noted that, for the most part, the regulatory framework binds them to the stringent requirements for SME loan applications. This rigidity is felt much more acutely with larger banks. One interviewee noted that these must also strictly adhere to internal rules and policies about requirements like documentation or collateral coverage, applied both globally (for international banks) and locally. This duality of rules and policies severely limits any flexibility in the lending process.

“Commercial banks should train loan officers to analyze case by case, and not limit themselves to check a list of requirements.”

Survey response

Alternatively, one benefit that banks do see with the entrance of large MNCs is that the level of professionalism of small businesses will increase as these companies will also require the same documentation in their due diligence processes. Another bank noted that the way in which they evaluate loans needs to adapt to the market – the business owner who possesses skills and sees profit potential should not be penalized for not understanding how to write the perfect business plan. It is then the responsibility of the bank to evaluate his or her capacity and returns to allow him or her to focus on what the business does best.

Constraints Faced by the Government

The spectrum of opinions regarding the impact of the government on access to finance was broad, with business owners claiming that “the government is [all-powerful] like God,” and, “We don’t have a serious government.” The general consensus was that the legal framework governing the operations of the banking sector is not a major constraint for SMEs to access financing. Rather, it is the application and enforcement of relevant laws (often in a selective manner based on favoritism) that greatly inhibits the availability of affordable financing for SMEs.9 The majority of survey respondents recognized macro-level

9 It should be noted that the consensus identified for these constraints does not necessarily reflect the opinions of government officials, who participated in the research. While those that we spoke with were cooperative, they also presented a much more positive image of their employer. They tended to deflect questions by noting that situations were improving or expressing different ideas about their expectations and responsibilities.
constraints as the least prohibitive, though this does not render them insignificant. An interdependent set of constraints afflicts this developing system that in many ways is still trying to get its feet solidly planted on the market economy ground.

**High levels of Bureaucracy and Corruption**

High bureaucracy and corruption are often strongly correlated, and Mozambique is no exception. From an activity as simple as driving across town to a more complicated task, such as registering a business, there seem to be roadblocks at every turn. Various stakeholders indicated that bribes are part of the cost of doing business, whether to get through administrative requirements or to influence a court ruling. This kind of corruption not only increases what the businesses need in terms of resources, but also increases risk on the part of banks, which then must factor both the risks and costs into their pricing structures.

There has been some progress in the form of the creation of several “one-stop shops” for different multi-step processes, including business registration and customs activities. While these have simplified processes on paper, donors expressed that these are more of a veneer because the dysfunctional operations behind the scenes have not been addressed. This supports some donor beliefs that the government is only making cosmetic changes to improve the country’s position in World Bank’s Doing Business Report. Addressing the symptoms of these deep-seated issues will not create the lasting change that is needed to fix the system as a whole.

**Lack of Enforcement and Capacity**

Most stakeholders expressed concern over the government’s capacity with respect to enforcement. One interviewee went so far as to say, “The government can’t do jack!” This is most readily apparent in the judicial system that struggles to enforce contracts or collect collateral. This increases the risk premium for lending to SMEs and cripples economic activity, ultimately driving an already risk-averse banking sector deeper into its shell. This paradox of limited capacity further deepens after learning through a donor interview that the best young minds in the country are entering the public sector given the job security and higher wages. It is also noted that the public sector presents opportunities for rent seeking in addition to job security and other benefits.

**Lack of Experience**

Related to lack of capacity is a relatively low level of experience, which is not an unusual issue for the government of a developing country. This was, however, an issue with some level of disagreement. Both a government and a donor participant offered the perspective that the country just needs...
some more time to work out the kinks in its system. Another bank participant originally from Botswana, refuted this position by offering her home country as an example of what can be possible for countries that gained their independence around the same time. This issue seems to reinforce the dichotomy between the de facto and de jure legal situations, as the laws were likely written with the help of developed countries, but the developing countries either cannot or do not enforce these laws to a similarly high level.

Constraints Faced by Donors

Interviews also shed light on specific challenges within the donor community including coordination of efforts among donors and multilateral financial institutions.

Donor Coordination

One of the main challenges identified in donor interviews was coordination of interventions and programming. This point was most prevalent with regards to the design and implementation of both linkages programs and alternative financing vehicles. The recognition and awareness from many stakeholders that such vehicles are necessary to catalyze SME lending and overall access to finance was clearly evident. Yet, upwards of five different entities have attempted to establish some form of equity investment fund targeting SME lending since 2006, with little to no coordination or success. Such attempts have proven futile due to a stringent regulatory framework alongside limited capacity of the Central Bank to assess their viability and implementation or regulate them as entities other than commercial banks. However, a notable point is that similar efforts from donors and international financial institutions continue, and these efforts are being conducted in silos, rather than an orchestrated and coordinated manner so as to avoid duplication and overlap.

Moreover, the landscape of donor programming in Mozambique is extensive, with the majority of private sector efforts targeting agricultural-based SMEs and agribusinesses. For SMEs operating outside of this sector, the technical support provided is often not linked to the needs and requirements of banking institutions, MNCs, and other commercial institutions. An example highlighted during the interviews involved technical assistance to SMEs in developing business plans. One donor interviewee noted the low rate of entrepreneurs who successfully qualify for loans after participating in business plan competitions or other similar donor programs aimed at assisting SMEs. She further noted that “understanding the needs of the commercial institutions and then tailoring interventions accordingly is a missed opportunity in this regard,” and one that can be enhanced by greater collaboration among stakeholders.
Conclusion

The preceding constraints are the most serious issues that each group of stakeholders face regarding access to finance for SMEs in Mozambique. However, it is impossible to consider each of these in isolation as the research made abundantly clear that this is a systemic issue preventing the flow of capital and investment. To conclude the analysis, it is important to look at those barriers in light of their relationships within a nascent financial sector. The following are the most pressing constraints that require immediate and sustained attention.

Low levels of SME capacity
Donors recognized that the greatest constraint to lending to SMEs is the SMEs themselves. Most other stakeholders, including several SMEs, echoed this sentiment during interviews. Specifically these issues included:
- Low levels of technical expertise
- Low levels of managerial experience
  - Lack of required documentation
  - Lack of affordable business service providers to address this issue
- Low level of financial / accounting capacity
  - Lack of financial records management

Informational Asymmetries
There is a cross-cutting lack of information flow between the relevant stakeholders that inhibits the financial system from functioning efficiently.

Collateral
Given the restrictions on land ownership, SMEs struggle to meet banks’ high collateral coverage requirements. These requirements range from 75% to 300%, which cannot always be collected by banks in the event of default.

Prohibitive interest rates
Interest rates in excess of 17% are viewed as prohibitive by most SMEs. In some cases, companies accepted this financing, but only as a last resort. While there was disagreement as to the root cause, the following are contributing factors:
- High cost of capital
- Low liquidity in the bank sector
- Lack of competition in the banking sector

Lack of alternative financing schemes
With only banks to approach for external financing, and after considering the bank-specific constraints, SMEs are resigned to slower growth. Progress has been slow in the creation of alternatives, with few options available due to:
- Lack of government familiarity with regulation of these mechanisms
- Poor cooperation among donors

These four factors are the most binding constraints that are limiting the efficient functioning of the financial system. A multi-faceted approach will be necessary to facilitate greater access to finance for SMEs.
Recommendations

Recommendations below address the most binding constraints identified in the research findings. Given the complexity of SME access to finance issues, the research team sets forth suggestions that specifically target PYXERA Global along with a multitude of relevant stakeholders. Recommendations are arranged according to a timeframe of implementation; additionally, specific actors to be involved in the process are identified. Priority and feasibility of suggested activities are also included to indicate the urgency and likelihood of their realization.

Short-term

1. **Collaborate with banks to develop tools that will ease the evaluation process of loan applications for companies.**

   The banks’ duty to protect their depositors’ funds necessitates a careful balancing between risk-aversion and profit-seeking. As such, proper evaluation of potential SME borrowers is highly critical. Mozambican banks operate within a highly bureaucratic regulatory framework and lack tools to properly evaluate potential SME borrowers (e.g. credit scoring system). This leads banks to demand official documentation that properly reflects the profitability of a business from SME loan applicants. SMEs, on the other hand, lack the financial and accounting expertise to maintain requisite financial records, which prevents some profitable businesses from receiving finance. This information gap between SMEs and banks may be breached with innovative approaches to evaluating SME credit-worthiness.

   Tools developed by PYXERA Global for vetting SME suppliers, such as the database and scorecard, can be leveraged by banks interested in new ways of evaluating SME applicants. Several banks have expressed interest in collaborating with PYXERA Global in this initiative. As such, the team encourages PYXERA Global to engage banks in the design, testing, and refinement of these tools. In addition, given that some of the banks expressed interest in the SDP database, the team suggests that PYXERA Global market this particular tool more broadly. Finally, PYXERA Global should train banks on alternative evaluation methods including cash flow based lending.

   - **Main actor:** PYXERA Global
   - **Potential partners:** BancoABC, Banco Terra, Banco UNICO, MozaBanco
   - **Priority:** HIGH
   - **Feasibility:** HIGH

2. **Create a networking platform for businesses in the oil and gas supply chain.**

   Low SME capacity is perpetuated by a lack of supporting institutions. An alternative route to tackling this issue is to foster connections between SMEs themselves, as well as individuals who are able and willing to offer professional advice, such as former successful entrepreneurs and retired business teachers. This may be accomplished by creating a networking platform for businesses, which will also foster greater organization and increase collective bargaining power. An existent organization, CTA, is well-placed to lead the effort because they already have strong lobbying influence on behalf of SMEs. Partnership with IPEME will promulgate the effort, since they are the representatives for SMEs within the Mozambican government.

   - **Main actor:** CTA
   - **Potential partners:** PYXERA Global, IPEME
   - **Priority:** Low
   - **Feasibility:** Medium
Medium-term

3. **Expand upon existing business services training program for SMEs participating in the SDP.**

Lack of affordable business service providers presents an unfilled market gap that contributes to low capacity among SMEs. In order to access financing, the most pressing needs for Mozambican SMEs are improved documentation and financial record management, which results from poor business training and management. PYXERA Global’s current business services training can help bridge this gap by including content that emphasizes financial record keeping. This content should be developed in consultation with banks and MNCs to ensure that what the businesses learn is applicable to the loan application and procurement processes. Partnership with IPEME will help ensure sustainability of this kind of training.

- **Main actor:** PYXERA Global
- **Potential partners:** above listed banks, ADE, NUNISA Consultor, Meridian 32, IPEME
- **Priority:** HIGH
- **Feasibility:** Medium

4. **IOCs should sign an MOU with several banks to use their (and their subcontractor’s) contracts as collateral for loans.**

SMEs are limited in their options of collateral. The second best option, property, is sometimes appraised by banks as having lower value than the purchasing price due to an inflated property market. An alternative approach to tackling limited collateral options is enabling SMEs to use contracts with the IOCs in securitizing their loans. This has been achieved in Mozambique through a similar partnership between Vale and some of the major banks. During interviews many of the banks expressed a great interest in pursuing this type of partnership with the IOCs as well.

- **Main actor:** IOCs
- **Potential partners:** BancoABC, Banco Terra, Banco UNICO, MozaBanco
- **Priority:** Medium
- **Feasibility:** VERY HIGH

5. **Increase the availability of information relating to procurement opportunities.**

A more systematic way to disseminate information about subcontracting opportunities via channels easily accessible by SMEs would ensure that the natural gas projects reach as many local companies as possible and achieves its local content development goals. The existing SDP database platform provides a natural distribution channel for procurement opportunities and other information relating to natural gas projects. IOCs can also utilize similar communication strategies as the government, which advertises its procurement opportunities in the newspaper on a regular basis. SDP Supplier Awareness Events are a start to the dissemination of this information, but a greater follow-up is needed, particularly through regular notices about tenders as well as a regular newsletter to update SMEs about natural gas project developments.

- **Main actor:** IOCs
- **Potential Partners:** PYXERA Global
6. **Perform a diagnostic of IPEME capacity.**

IPEME should be the main advocate for SMEs to the Mozambican government. In order to increase the SMEs lobbying power, the capacity, technical skills, and visibility of the agency must be increased. PYXERA Global, through the SDP, seeks to collaborate with IPEME to increase the agency’s leadership capacity. In order to achieve this, an independent diagnostic assessment must be undertaken to identify capacity building gaps and opportunities.

- **Main actor:** External evaluator
- **Potential partners:** IPEME, PYXERA Global, international donors
- **Priority:** Low
- **Feasibility:** Low

7. **Coordinate activities and responsibilities with other NGOs in the sector.**

In order to reduce duplicative efforts in the SME space, especially with regards to linkages programs, access to finance opportunities, and the creation of alternative financing mechanisms, there must be regular communication between donor and government stakeholders. This would be an opportunity for IPEME to demonstrate its leadership in the SME sector, but this cannot be successful without the participation of all parties in this space. Through coordination and communication, more ground can be covered more effectively, which will help SMEs access a broader range of services.

- **Main actor:** IPEME
- **Potential partners:** KfW, DfID, IFC, AfDB, Building Markets, ACIS, PYXERA Global, CTA, other donors
- **Priority:** Medium
- **Feasibility:** Medium

**Long-term**

8. **Create alternative financing mechanisms to the banking system for SMEs.**

Limited alternative financing is one of the largest constraints on the Mozambican SMEs ability to access finance and this is fairly common in developing economies. Although limited forms of private equity exist, the financing system needs to become more diverse and competitive in order to create more options for the SMEs. The creation of alternative financing vehicles such as angel investors or equity funds would allow SMEs products to be more tailored to their businesses. Additionally, the entrance of new financers could catalyze the banking sector, especially the large banks, to improve their lending practices in order to remain competitive in a larger market.

- **Potential actors:** AfDB, KfW, DfID, IFC, PYXERA Global, Building Markets, Delphos, OPIC, NORAD, NorFund, EuroFin, Aureos
- **Priority:** HIGH
- **Feasibility:** We are not able to assess the feasibility of this without much more tailored research. Participants in our study expressed a variety of concerns over the challenges that will arise in the creation and implementation of this kind of mechanism, but others stated that it is possible and just will require significant effort.
9. *Increase the coverage of private information relating to credit history and collateral.*
Collateral was one of the biggest constraints for SMEs access to finance. Though the privatization of land will not happen overnight, a strong system to register diverse forms of collateral will help SMEs in their ability to qualify for loans. Increasing the availability of credit history information will have a similar effect by reducing the cost of evaluating a business and allowing banks to lend in smarter ways. This is a classic donor initiative.
- **Main actor:** A major donor such as the IFC or AfDB
- **Potential partners:** Banks, foreign credit rating agencies
- **Priority:** Medium
- **Feasibility:** Low

10. *Increase lobbying efforts to improve the business enabling environment and the enforcement/implementation of current laws.*
The lack of government capacity has led to poor implementation of laws pertaining to SMEs and the business climate. With the lack of a clear local content framework in Mozambique, CTA, with the help of IPEME and other donors, needs to lobby for the interests of Mozambican SMEs so that their participation is guaranteed in these upcoming mega-projects, thus promoting more inclusive growth in the country.
- **Main actor:** CTA
- **Potential partners:** IPEME
- **Priority:** Medium
- **Feasibility:** This is an ongoing effort that should continue
Annexes

Annex 1: Literature Review

Introduction

Small and Medium Enterprises (SMEs) have begun to be recognized by international development practitioners as a potentially strong force to create sustainable economic growth (SNV; World Business Council for Sustainable Development, 2007). Because of their relatively high prevalence and growth potential, promotion of these businesses is seen as an effective strategy. On average, in developing countries, more than 90 percent of businesses, outside of the agricultural sector, are considered small- or medium-sized, and they account for the majority of jobs (Ayyagari, 2011).

Research has attributed SMEs’ development to several positive impacts on economies to include having the potential to lead to sustained growth. First, they are more likely to generate employment. This means incomes for individuals and increased consumption. Additionally, SMEs promote innovation and dynamism within the business sector, as they must find creative ways to compete with other producers. Finally, they create a sense of stability at a domestic level and reduce dependence on foreign producers and manufacturers (Beck, Demirüç-Kunt, & Levine, 2005).

This especially takes place within the context of value chains that have risen as one common strategy for promoting the targeted growth of these enterprises. A value chain is “the full range of activities through which a good or a service passes from its inception to its distribution and beyond” (United Nations Conference on Trade and Development, 2010). Working in this kind of cluster or structure allows businesses to have an increased level of security in terms of their production because they oftentimes have a set channel in which they are distributing their products. It also allows for targeting on the side of investors or groups offering training and capacity building because there is an established mechanism within which they are working and can tailor their activities (Caspari, 2003).

The idea is that this increased economic growth will lead to other positive effects like poverty alleviation and decreased income inequality. There is, however, research that contradicts these theories. Beck, Demirüç-Kunt, and Levine (2005) conclude that there is a strong positive correlation between SMEs and per capita gross domestic product (GDP) growth. However, they do not find a causal relationship. Furthermore, they found no evidence of broader impact on poverty and inequality (Beck, Demirüç-Kunt, & Levine, 2005). A World Bank policy research report found similar results in terms of access to finance for SMEs. This access leads to economic growth, but researchers are still far from understanding the channels through which this in turn leads to poverty reduction (Demirüç-Kunt, Beck, & Honohan, 2008).
Access to Finance Theory

**SME’s Access to Finance**
There is an abundance of research that demonstrates that access to finance is one of the major barriers that SMEs face when it comes to growing and taking advantage of investment opportunities. The World Economic Forum calls the gap in financing for these enterprises the “missing middle” (Young Global Leaders Community, 2010). Microfinance institutions cover the credit needs of many of the smallest businesses and individuals while banks and large financial firms serve larger and more established firms. This leaves minimal opportunities for SMEs.

Several studies investigate these barriers and also make comparisons across regions. Maksimovic, Demirgüç-Kunt and Ayyagari (2006) surveyed SMEs in 80 countries to identify the most binding constraints to business growth. Their results reveal that finance is a major limitation that directly influences firm growth and development. Particularly, high interest rates are identified as the most binding constraint to growth when it comes to SME financing. There is a statistically significant correlation between high interest rates and banks’ lack of money to lend. Additionally, high interest rates are correlated with high collateral and paperwork requirements, the need for special connections with banks and unavailability of long term loans. This is indicative of the fact that bureaucracy and corruption in banking, greater collateral requirements and lack of long term loans are prevalent in contexts where interest rates are high. Demirgüç-Kunt and Klapper (2012) showed that these constraints are more prevalent in Africa than in most other developing countries. Only 22% of businesses in the region have an external loan or line of credit compared to 43% elsewhere. 45% of all firms report access to finance as a major constraint, and this is even higher for smaller firms. 84% of high-growth firms financed investments internally as opposed to 70% in other developing countries.

**Channels to Address These Issues**
In developing countries, many banks deem the costs and risks associated with lending as far too high to permit secure, affordable credit. These risks include: informality of SMEs (e.g., lack of formal registration, poor recordkeeping, and lack of financial statements – this also include microenterprises); difficulty enforcing loan contracts; Inadequate collateral laws and registries; challenging bankruptcy regimes; high loan reserve requirements; crowding out by government bonds; and asymmetrical credit information. To this latter point, the financial system relies heavily on information about the reliability and solvency of the party promising repayment. Additionally, inadequate skills on the part of banks for assessing and managing risk of lending to SMEs further exacerbate the already existing risks of lending. Mitigating these risks creates opportunities for strengthening the enabling environment and the financial regulatory system guiding access to finance opportunities.10

**Enabling Environment**
The OECD recognizes that “an enabling business environment is a necessary condition for promoting SMEs” (OECD Global Conference, 2007). This includes the equitable enforcement of laws and regulations including bankruptcy laws, property rights, license and certification procedures, as

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10 Much of the information below was content from Professor Wade Channell’s lectures on Private Sector and Development at George Washington University in the Fall of 2013.
well as efficient dispute settlement. These are just some of the relevant levers that can be adjusted to try and increase access to finance and business growth.

Property rights are a critical factor for businesses because it not only allows them to control and protect their investments, but also to have a concrete form of collateral when applying for external financing.

Bankruptcy laws allow a company or person to recover after failure. This removes a major financial risk to starting a business or investing in something new. It also reduces the risk for a bank lending to an SMEs because it reduces the likelihood of default.

Building local capacity is another channel through which governments can support SME development. This entails anything that leads to more capable and better-trained workers. Health and education are two of the more important parts, but it also relates to training businesses on how to comply with both domestic regulations and also international standards.

Effective governance is another necessary component for any of this to happen because it permits the fair application of any relevant laws. Corruption is a widespread parasite in many developing countries that for the most part only impedes sustainable progress by altering incentives and activities. Being able to enforce proper regulations is the foundation for advancing business growth. Finally, simplifying regulations and compliance issues for small business is another way to promote formalization and growth. If an enterprise does not have to clear too many barriers or pay too many fees to be recognized by the government, this will go a long way to improving its ability to get credit and to be protected by the legal system. Both of these are imperative to promote the innovation and dynamism that are recognized as major comparative advantages for SMEs over large corporations.

**Banking Sector**

The banking sector itself also has tools at its disposal that can facilitate easier lending practices on the bank's part, which would in turn promote increased access for SMEs.

A sound legal framework is the basis for a banking sector that functions efficiently. These laws include regulations controlling transactions, institutions, and the roles of different actors. Specifically, the reserve requirement and allowing the operation of foreign banks are two solutions that can have major impacts. The former of these directly affects the amount of money that a bank has available to lend and consequently the interest rate and fees that they must charge to cover their expenses. The latter promotes competition within the sector and can lead to improved products and services. A World Bank report found that even if banks don't directly serve SMEs, they can still have positive indirect effects by stimulating investment and economic activity of larger firms that can in turn work with smaller enterprises (Demirgüç-Kunt & Klapper, 2012).

Credit information is another key factor for banks as it helps them to determine levels of risk associated with different potential borrowers. The presence of centralized information allows banks to more easily determine which SMEs are more likely to repay their loans and to properly determine interest rates. This facilitates greater access for responsible companies because these are not faulted for the risk of all other small firms and don't have to pay more because of others' actions.

Finally, improving the system for registering and accepting collateral is another way of reducing risk.
First, if banks are better able to track and monitor this, they are more likely to be able to collect in the event of default. This reduces risk and therefore cost. From the borrowers side, improving the system usually allows for a wider range of assets to be considered acceptable forms of collateral. This makes it easier to meet the requirements of banks and increases the likelihood of receiving financing.

Mozambican Context

It is of utmost importance to understand the political, social, and economic context of Mozambique in which this research will be carried out. Both the history and current situation have relevant impacts on the business environment today, and so it is important to understand where the country has been and where it is before beginning to think about where it could or should go.

Overview

Mozambique was a Portuguese colony for five centuries until its independence in 1975. For the majority of the time, rule was concentrated in the hands of trading companies, rather than direct political authorities. Shortly after independence, civil war began between major parties over multiple issues including political and economic structure as well as support for groups fighting white-minority rule in South Africa and Rhodesia, which from 1977 to 1992. This resulted in significant social division that still exists and plagues the country today. In the last two decades, the country has experienced relatively stable democracy but with questionably fair elections. Many issues have been coming to a head in the last few months as a minority party has boycotted the most recent municipal elections and been creating a significant amount of instability in the political climate (BBC, 2013).

Political Context

On 30 November 1990, Mozambique adopted a new constitution that provided for a multiparty political system and exchanged its centrally controlled political economy for a market-oriented one. The General Peace Agreement (Acordo General de Paz) of October 1992 ended Mozambique’s 16-year civil war. The two major political parties – the ruling Frelimo and opposition Renamo – and their leadership dominate Mozambique's political environment. Frelimo, founded in Tanzania on 25 June 1962, led the decolonization process from Portugal, resulting in independence in 1975. Notwithstanding the introduction of a multiparty system in the 1990s, Frelimo is still the main political force in Mozambique. The party maintains its dominance over the political, economic and social set-up of the country. Meanwhile, Renamo, founded in what was then Rhodesia (now Zimbabwe) in 1975, has challenged Frelimo's popular governance since independence and also initiated a process that modulated the political dynamic in Southern Africa (Shikhani, 2012).

There has been a significant rise in political tension since late 2012. Renamo forces are demanding more representation in the public affairs as well as major reforms in the electoral system that they claim has been manipulated by Frelimo since 1992. The party boycotted the local election in November 2013 and are presently waging a guerilla war in several provinces where they still retain some influence (Hanlon, 2014).

Economic Context

In recovering from civil war, Mozambique became one of the fastest growing non-oil economies in sub-Saharan Africa (Ribeiro & Muzima, 2011). Initial economic growth was fueled by the agricultural sector and inflows of Foreign Direct Investment (FDI) and Official Development Assistance (ODA).
Since the late 1990’s, the structure of output growth shifted from agriculture to the industry sector, driven by increased FDI in capital-intensive extraction megaprojects (Guilherme Reis, Bouri, Munzele Maimbo, & Quijada, 2009). According to World Bank’s recent Economic Update, the extractive sector is currently the fastest growing sector of the economy (World Bank, 2013). In the decade leading up to 2012, the country experienced an average annual GDP growth rate between 6% and 8% (Central Intelligence Agency, 2014).

This growth, however, has not translated into poverty alleviation. It is estimated that nearly 90% of the workforce is employed in the informal sector (Roberts, 2003). Of these, the “vast majority” are subsistence farmers (Central Intelligence Agency, 2014). Currently, the majority of formal businesses in Mozambique are micro-enterprises employing less than 10 workers; 13% of those SMEs are engaged in industry. Thus, the formal SME sector in Mozambique is underdeveloped, generating little employment and making minimal contribution to overall economic growth.

**Cultural Context**

Mozambique is a multiethnic society with a broad range of ethnic groups and languages represented. While Portuguese is the official language, there are over 40 different maternal tongues spoken regionally. In the south, Changana is primarily spoken. In Nampula, Macua is more common. The west is dominated by Shona speakers while Swahili is the language in the northern provinces. These regional differences are also evident in levels of development and economic activities. The south, including the capital of Maputo is much more developed and has strong ties with South Africa. The West is the center of much of the mining industry and is therefore one of the fastest growing areas in the country. The northern provinces are the least developed and poorest. They have some of the lowest literacy rates and health indicators within the country.

**SMEs in Mozambique**

Several studies have been conducted on SMEs in Mozambique. Louis and Macamo (2011) surveyed 30 Mozambican SME owners about barriers to business growth. 56% of the respondents rated access to finance as very difficult. 86% of those self-financed their business start-up. 43% stated that they have sought financial assistance, mainly from donors and the government, but only 20% indicated they were successful. High bank charges and fees were identified as the main reasons for not accessing formal credit. The authors conclude that small enterprises are reluctant to borrow from formal channels, relying on sources more convenient to them instead. Krause, et al. (2010) examine the triangular relationship between regulatory business environment, formalization, and business development in Mozambique. When questioned about obstacles to business development, study participants (SME owners) identify cost of credit and access to credit as second and fifth most severe obstacles, respectively. Qualitative interviews indicate that high interest rates are one of the most prohibitive factors when it comes to using formal sources of credit. Additionally, lack of regular income and collateral prevent SMEs from using or getting credit. Even among the most formal of businesses surveyed, savings were the primary source of finance.

While it is very important to know that cost of and access to credit are some of the major factors preventing SMEs from growing and taking advantage of new business opportunities, that is not particularly useful from a policy or practice standpoint. This research takes some of these studies a step farther by diving deeper into what causes these barriers. While there has been a limited amount of work done on this (Louis & Macamo, 2011), this analysis dives deeper by including not
only the perspective of the business owners, but also bank and government officials.

**Enabling Environment**

According to the World Bank’s Doing Business Index, Mozambique received a score of 54.98% of overall ease of doing business, placing it 139 out of 189 countries, with problem areas in resolving insolvency, enforcing contracts and registering property (World Bank, 2014). Among 148 economies ranked by the World Economic Forum on its Global Competitiveness Index, Mozambique is 137th, with access to finance, corruption and inefficient government bureaucracy topping the list of most binding constraints (Schwab & Sala-i-Martín, 2013).

The large informal economy is indicative of a disabling environment for SMEs that is reflected in Mozambique’s poor rankings. Informal business owners identify ‘high monetary and time cost for obtaining a license’ as the top reason for not pursuing formalization (Krause, et al. 2010). Regulatory reforms in 2010 and 2011 removed some requirements and eased the process of obtaining licensing, thus reducing the procedures and time it takes to launch a business to below world averages (Heritage Foundation, The, 2013). Frequent inspections performed in a ‘non-cooperative manner with the objective of detecting an infraction at all costs’ and the recurrent costs in the form of time, effort, fines and bribes associated with inspections constituted another disincentive to formalization (Krause, Ackermann, Gayoso, Hirtbach, Koppa, & Siciliano Brêtas, 2010). Other reasons for choosing to remain informal included low and irregular enterprise cash flows, lack of easily understandable information on compliance, as well as, lack of necessary documentation, such as property title and rental agreement.

Lack of a favorable enabling environment disincentivizes Mozambican SMEs from operating in the formal economy, hindering private sector development in several ways. Presence of numerous informal enterprises undermines the ability of formal SMEs to effectively compete and exacerbates the problem of accessing credit. Inability to increase capacity, grow and create employment due to lack of financing is holding SMEs, as well as, the overall Mozambican economy back in maximizing their full potential.

**Land rights**

Land is owned exclusively by the state and is nontransferable. Land is obtained for economic purposes through use rights. Use-rights transfers can be authorized only if an improvement or structure has been built on the land, but the authorization is highly subjective because of a lack of stipulated regulations. The land law itself does not require changes, but rules for authorization of property transfers should be clarified and simplified, and use rights should be more freely usable as collateral.

**Bankruptcy Laws**

The bankruptcy and insolvency laws in determining the rights of creditors and debtors and settling claims for entities that cannot meet their obligations are highly inefficient. Mozambique revised its bankruptcy laws in 2009 with assistance from USAID’s Trade and Investment Project (Kormos, 2011). The new law overhauls system with international best practices based on the Brazilian model. Despite sound foundations, much work is still needed in implementation, such as the training of the judges and other legal professionals in its implementation, specifically in adapting the Brazilian law to the Mozambican context. According to the Doing Business Report, it takes 5 years to close a business, resulting in a recovery rate for the banks of 16.6 cents on the dollar after a bankruptcy (World Bank, 2014). This is further complicated with the high cost of enforcing contracts through the
courts, which takes an average of 950 days and costs 119% of the claim. This is a great disincentive for banks to lend to SMEs, due to the high probability of failure of small businesses and therefore their inability to recover their loan.

**Governance**

As previously mentioned, corruption is identified by World Economic Forum as one of the top problematic factors in conducting business in Mozambique. 25% of enterprises in the World Bank's Enterprise Surveys also perceive corruption to be a binding constraint. Apart from ‘Political Stability and Absence of Violence’, all indicators for Mozambique in the World Bank's Worldwide Governance Indicators fall below the 50<sup>th</sup> percentile (i.e. voice and accountability, government effectiveness, regulatory quality, rule of law, control of corruption), with ‘Control of Corruption’ indicator showing the most significant decrease (World Bank Institute, 2012). The World Bank Investment Climate Assessment states that across different categories of firms, the burden of corruption is greatest among SMEs. A positive sign for SMEs in the gas industry is Mozambique's recent membership in the Extractive Industry Transparency Initiative (EITI), although evidence suggests that this has not been effective in preventing diversions of public funds since EITI does not monitor all stages of the transaction between government and private sector entities (Ossemane, 2013). Despite anti-corruption efforts, Mozambican SMEs are still reluctant to use government institutions because as one small business owner states, “I have information on [the government] institutions that support small enterprises but I have never sought them as I judge them to be corrupt” (Dinhucha, Fumo, & Chiappetta Jabbour, 2011).

**Banking Sector**

Access to finance is repeatedly identified as one of the most problematic areas for Mozambican businesses, particularly SMEs. (Louis & Macamo, 2011) According to the most recent World Bank Investment Climate Assessment, credit penetration among SMEs is low and has been declining. Interest rates of up to 25%, collateral requirements of up to 300%, and lack of lending products tailored to SME’s needs make formal bank financing inaccessible to enterprises. (Roberts, 2003) A World Bank Assessment of Mozambique's Financial Sector arranges reasons for lack of depth in the financial markets into two categories: macroeconomic impediments and structural characteristics of the banking system.

Mozambique has a robust banking sector, with commercial banks dominating the financial landscape in Mozambique. In 2005, three large banks accounted for 80 percent of total bank assets and 83 percent of total deposits. New banks are breaking through with 13 banks in operation since 2007 (Nathan Associates, 2008). The two major local banks include Millennium BIM and the Banco Commercial e Investimento (BCI), and the major foreign players include Barclays Bank, Standard Bank, and Banco ABC. The ratio of broad money to GDP—a basic indicator of monetization—and credit to the economy as a percentage of GDP are above the median for low-income countries but very low in absolute terms. This degree of concentration helps to explain the high profit margins, the large spread between deposit and lending rates, and the high banking fees in the system. The rest of the financial sector, which includes the insurance sector, leasing companies, the stock and bond exchange, and private pension funds, is not very dynamic.

**Legal Framework**

Following recent reforms, the overall legal framework for the financial system itself is in good shape. The laws clearly stipulate the functions of the central bank, regulations for establishing and
operating financial institutions, rules pertaining to domestic and international financial transactions, reserve requirements, and regulations governing microfinance and the insurance industry. Appropriate laws also cover bank secrecy, anticompetitive behavior, and prudential principles for credit and financial institutions. Poor administration of certain aspects of the law, however, poses serious problems for financing the private sector.

**Stability**
From 2004 through early 2006, macroeconomic conditions were characterized by the following: exchange rate volatility; rising inflation (to a peak of 17.1 percent in April 2006); and heavy domestic borrowing by the government (with net credit to the government reaching 40 percent of total bank credit in the first quarter of 2005). These conditions pushed up interest rates and crowded out credit to the economy. Since early 2006, the government and the central bank appear to be succeeding in restoring macroeconomic stability, which should contribute to lower interest rates and improved access to credit for the private sector.

**Reserve requirements for banks**
The Central Bank of Mozambique lowered reserve requirements in 2010 from 9% to 8% in order to stimulate lending by injecting liquidity into the markets (Macau Hub, 2009). This rate has remained constant and was reaffirmed in the October 2013 Monetary Policy Committee meetings (Monetary Policy Committee, 2013). The Bank of Mozambique's Treasury bills last offering paid a weighted average interest rate of 6.59% on a 182-day bill and the 6-month Maibor (interbank lending rate) is at 13.82%. Fixed deposits in Mozambique are currently paying 1.5% and the prime rate on a standard lending facility pays 8.25%. Therefore, taking into account the risks, cost of borrowing for a bank, and the opportunity cost, in order to make a profit on a loan to an SME, banks in Mozambique charge an average of 25% interest on a term loan.

**Credit Scoring**
Mozambican banks are hesitant to lend due to weak mechanisms in assessing the risks of SMEs as well as enforcing contracts within the country (World Bank & International Monetary Fund, 2009). Credit bureaus can be a key enabler of access to finance in developing countries as it lowers transactions costs and mitigates risks for banks in their assessment of SMEs (Baer, Carassinu, Del Miglio, Fabiani, & Ginerva, 2009). In addition to assisting on the banking side, credit rating systems increase good borrowers access to financing and therefore their ability to grow (Mylenko, 2008). Despite these advantages, many developing countries, including Mozambique, do not have public or private credit bureaus. This problem is coupled with the inability of banks to collect on collateral that is pledged due to legal issues such as land ownership as discussed above. The World Bank recently started a program to increase credit reporting in Mozambique as a lever to facilitate SME Financing (World Bank, 2013). The primary objective of this project is to improve banks' risk management, which will hopefully lead to greater financial inclusion for local businesses. Unfortunately, the IFC ran a similar program in Mozambique in 2010 but only increased the public credit coverage of the country to 4.3% from 2.3% (International Financial Corporation, 2010) (World Bank, 2014). In addition to poor coverage; information that is collected is not comprehensive and cross-referenced; and there is a 3-week lag in retrieving borrower information (Roberts, 2003). Furthermore, lack of record keeping with regard to cash flows among SMEs poses a risk to lending institutions. Other macro conditions that limit lending include weak accounting standards and lack of qualified accountants (World Bank & International Monetary Fund, 2009).
Due to strong links with the Portuguese banking system, the financial crisis in Portugal made the Mozambican financial system less liquid, limiting the amount of credit available to the private sector (Ribeiro & Muzima, 2011). Additionally, Basel III has further restricted the ability of banks to lend by increasing capital requirements (in order to prevent external shocks such as those that happened in 2008). (Basel Committee on Banking Supervision, 2011) The reserve requirements, amount of non-performing loans, and overhead costs for Mozambican banks are at an all-time high. As such, banks are incentivized to cater to the needs of larger, lower-risk clients with profitable and predictable cash-flows, instead of growing their portfolios through diversification into SME segments. Furthermore, there is a lack of competition among Mozambican banks due to a highly concentrated industry structure. Three large, foreign owned and politically connected banks hold 85% of financial assets (World Bank & International Monetary Fund, 2009). All of these financial constraints on the bank greatly limit the availability of credit to SMEs in Mozambique, thus hindering their ability to grow.

### Development Projects in Mozambique

This section presents an overview of development projects and government initiatives in Mozambique pertaining to access to finance issues for the country’s SME’s.

### Donor Initiatives

The World Bank (WB) is currently implementing two projects in Mozambique, which primarily focus on business enabling environment. WB is leveraging its technical advisory strengths in building the capacity of public sector institutions that focus on the hydrocarbon and mining sector through the Mozambique Mining and Gas Technical Assistance project, as well as, working to reduce the cost of doing business through reform through the Competitiveness and Private Sector Development Project. The latter project is aimed at assisting enterprises in the tourism and horticulture sectors by increasing their access to business development services.

The International Finance Corporation (IFC) provides loan financing to a successful aluminum smelter, Mozal in order to build its capacity to produce aluminum metal and creating opportunities for Mozambican SME’s by out-sourcing non-core activities to local businesses. Additionally, IFC is active in building the capacity of Mozambican SME’s through training and technical mentoring. IFC’s Mozlink project aims to link 10-15 SME’s to the Mozal operation contracts and assist a batch of existing suppliers. A component of the project entails the provision of assistance to two local financial institutions in the provision of working capital for participating SME’s. Also, IFC helped establish ‘Banco Internacional de Mozambique,’ an investment bank in Mozambique focused on the provision of financing for local companies.

United Kingdom’s Department for International Development (DFID) has been active in the business enabling and access to finance space in Mozambique. The Mineral Resources (Megaprojects) Consultancies Support facilitates technical assistance related to large project investments in the mining sector to relevant government bodies. DFID is also collaborating with WB in the implementation of the Mining and Gas Technical Assistance project focused on business enabling environment reforms pertaining to extractive industries. DFID’s Mozambique Access to Finance
Program (MAFiP) and Global Finance Initiative Forum projects foster access to finance for Mozambican SMEs through various activities, which include financial literacy education, development of financial infrastructure (i.e. collateral registry and credit bureaus), provision of debt and equity financing to commercial banks for SME lending, and scaling up of technology-based initiatives (i.e. DFID is financing three winners of the G-20 SME Finance Challenge).

**Government Initiatives**

The government is also pursuing programs to develop the financial sector, with donor support. Two notable programs are the Financial Sector Technical Assistance Program (FSTAP), led by the World Bank in cooperation with the Ministry of Finance, and the Rural Finance Support Program (RFSP), led by the International Fund for Agricultural Development (IFAD) under the Ministry of Planning and Development.

- **FSTAP**, a $28.5 million program, aims to improve the soundness of the financial system, debt management, and financial intermediation.
- **RFSP**, a $34 million program, operates through the government’s Economic Development Support Fund (FARE) and targets reducing poverty, improving rural livelihoods, and enhancing the viability of rural enterprises through sustainable access to financial services in rural areas.
- **Other agencies**, including the IMF and USAID, also have programs with components for financial sector improvement. In addition, the government has been pursuing a major program of legal and judicial reforms.

**Banking Initiatives**

**Guarantee Programs**

In addition to bank support programs to improve the infrastructure of the banking industry, there are several guarantee programs in Mozambique to stimulate SME lending. USAID’s Development Credit Authority operates in Mozambique to guarantee mainly agricultural and micro-loans. They currently have an open facility with Opportunity International, but the former Country Director indicated that the fund was underutilized due to the riskiness of the agricultural loans and the pari-pasu nature of the DCA. Overseas Private Investment Corporation currently operates in Mozambique with both debt financing and guarantees available, but these facilities are only available to companies which are more than 50% American owned, and therefore cannot assist in the facilitation of credit to local SMEs. The French Development Agency (AFD) runs the ARIZ program, intended to improve access to finance for MSMEs through risk-sharing with banks (French Development Agency, 2011). This program can be used to guarantee either a single loan or a portfolio of loans, and is currently being used by BCI for lending to SMEs for long-term loans needed for capital expenditures. Finally, the African Development Bank, in partnership with the Spanish Agency for International Development Cooperation and the Danish International Development Agency, has a US$50mm fund for SMEs in several African countries including Mozambique (African Development Bank, 2010). In addition to partial guarantees, this fund offers capacity development for financial institutions, so that they can better understand the needs of the SMEs and improve product offerings. In conclusion, there are several guarantee funds already operating in Mozambique with different focuses, but all seem to be discordant and underutilized.
Annex 2: List of Interviewees

<table>
<thead>
<tr>
<th>SMEs</th>
<th>Banks</th>
<th>Donors and Local Non-Profit Agencies</th>
<th>Government Agencies</th>
</tr>
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<tbody>
<tr>
<td>Text</td>
<td>Standard Bank</td>
<td>ADE</td>
<td>Central Bank</td>
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<td>Serralharia Angelina</td>
<td>Banco Terra</td>
<td>African Development Bank</td>
<td>IPEME</td>
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<td>Incomati Logistics</td>
<td>BancoUnico</td>
<td>Eileen Miamidian (Consultant)</td>
<td>CPI</td>
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<td>Nunisa Consultor</td>
<td>BancoABC</td>
<td>USAID</td>
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<tr>
<td>Construções Aissa</td>
<td>Millennium BIM</td>
<td>DfID</td>
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<td>Traçus Architecture</td>
<td>MozaBanco HQ</td>
<td>Agha Khan Foundation</td>
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<tr>
<td>Minimus Servicios</td>
<td>MozaBanco Pemba Branch</td>
<td>Swedish Embassy</td>
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<td>Help Multiservice</td>
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<td>KFW</td>
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<td>Lia e Luana Servicos, LDA</td>
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<tr>
<td>Alicia, LDA</td>
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<td>EngCO Investment</td>
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<td>Bonatti/ENHL</td>
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<td>Meridian 32</td>
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</table>
Annex 3: Survey Questions and Results

**SMEs**

1. In what city is the business based?

   ![Pie chart showing city distribution]

   - Maputo: 75.68% (28)
   - Pemba: 13.51% (5)
   - Mocuba: 2.7% (1)
   - Montepuez: 0% (0)
   - Nampula: 0.11% (0)
   - 6 - Beira: 0% (0)
   - 7 - Palma: 0% (0)
   - Other: 0% (0)

2. How long has your business been in operation?

   ![Pie chart showing duration]

   - 1 - 0-2 years: 18.92% (7)
   - 3 - 5-10 years: 16.22% (6)
   - 2 - 3-5 years: 37.84% (14)
   - 4 - More than 10 years: 27.03% (10)

   Mean: 2.51
   Response: 37

3. About how many people does the business employ?

   ![Pie chart showing employee distribution]

   - 1 - 0-10 people: 59.46% (22)
   - 3 - 51-100 people: 8.11% (3)
   - 2 - 11-50 people: 18.92% (7)
   - 4 - 101-250 people: 5.41% (2)
   - 5 - 251-500 people: 0% (0)
   - 6 - more than 500 people: 8.11% (3)
4. About how much revenue do business activities generate each year?

![Pie chart showing revenue distribution]

- 1 - Less than 1,500,000 Metacais: 16.67% (6)
- 2 - 1,500,000 to 3,000,000 Metacais: 25% (9)
- 3 - 3,000,000 to 15,000,000 Metacais: 19.44% (7)
- 4 - 15,000,000 to 30,000,000 Metacais: 16.67% (6)
- 5 - More than 30,000,000 Metacais: 22.22% (8)
- 6 - I don’t know: 0% (0)
- 7 - I don’t want to say: 0% (0)

5. How much of the business ownership is held by Mozambicans?

![Pie chart showing ownership distribution]

- 1 - Less than 25%: 5.56% (2)
- 2 - 25%-49%: 5.56% (2)
- 3 - 50%-74%: 8.33% (3)
- 4 - 75%-99%: 5.56% (2)
- 5 - 100%: 75% (27)

6. Where have you looked for business financing?

![Bar chart showing financing sources]

- 1 - Banks: 67.74% (21)
- 2 - Government (Public): 3.23% (1)
- 3 - Microfinance Agency: 38.71% (12)
- 4 - Family/friends: 16.13% (5)
- 5 - Other programs (please list): 16.13% (5)
7. Does your business currently use a bank?

- Yes: 100% (35)
- No: 0% (0)

8. If yes, which bank does your business use?

- MozaBanco: 25.71% (9)
- BancoABC: 8.57% (3)
- Millennium BIM: 54.29% (19)
- Barclays: 14.29% (5)
- Standard Bank: 25.71% (9)
- BCI: 65.71% (23)
- Banco Unico: 17.14% (6)
- None: 0% (0)
- Other: 8.57% (3)

9. If yes, what services does your business use?

- Deposit account: 91.18% (31)
- Term Loan: 29.41% (10)
- Overdraft loan: 11.76% (4)
- Financial Advice: 11.76% (4)
- Leasing: 11.76% (4)
- Letter of Credit: 23.53% (8)
- None: 0% (0)
- Other: 14.71% (5)
10. Has your business applied for a loan in the past 5 years?

- Yes: 60% (21)
- No: 40% (14)

11. If yes, was your business approved for the loan?

- Yes: 60.87% (14)
- No: 39.13% (9)

12. If yes, how much was it for?

- Less than 1,500,000 Metacais: 12.5% (2)
- 1,500,000 to 3,000,000 Metacais: 37.5% (6)
- 3,000,000 to 15,000,000 Metacais: 31.25% (5)
- 4 - 15,000,000 to 30,000,000 Metacais: 0% (0)
- More than 30,000,000 Metacais: 12.5% (2)
- I don't know: 6.25% (1)
- I don't want to say: 0% (0)
13. If no, indicate why you were turned down.

- Did not have proper documentation (e.g., company registration, financial records, etc.): 0% (0)
- The application process was corrupt: 0% (0)
- Collateral or guarantee requirements were too high: 44.44% (4)
- The loan amount was too high or too low: 11.11% (1)
- Poor financial history: 22.22% (2)
- I do not know: 22.22% (2)
- The application process was very bureaucratic: 22.22% (2)
- The bank did not recognize the form of collateral I have: 0% (0)
- I applied for the wrong type of loan (overdraft vs. term loan): 0% (0)
- The loan was requested for an inappropriate purpose: 0% (0)
- The loan officer could not properly evaluate my application: 0% (0)

14. What are the current financing needs for your company?

- Purchase of equipment: 54.55% (18)
- Sales/Marketing of activities: 18.18% (6)
- Expansion into other lines of business: 51.52% (17)
- Financing of working capital: 27.27% (9)
- Expansion of current line of business: 45.45% (15)
15. How much financing is needed for your business?

Response: 32

1. Less than 1,500,000 Meticas 12.9% (4)  
2. 1,500,000 to 3,000,000 Meticas 19.35% (6)  
3. 3,000,000 to 12,000,000 Meticas 45.16% (14)  
4. 15,000,000 to 30,000,000 Meticas 6.45% (2)  
5. More than 30,000,000 Meticas 6.45% (2)  
6. I don't know 6.45% (2)  
7. I don't want to say 3.23% (1)  
8. No financing needed 0% (0)

16. What kind of financing instrument would be of interest to your company?

- Term loan 69.7% (23)  
- Overdraft loan 6.06% (2)  
- Loan Guarantee 15.15% (5)  
- Equity investment 21.21% (7)  
- Leasing 30.3% (10)  
- Letter of Credit 24.24% (8)
17. Does your company plan to seek financing in the next year?

1. Yes 84.85% (28)
2. No 15.15% (5)

18. If you were interested in applying for a loan, where would be the first place you would go to find information?

1 - Bank 68.75% (22)
2 - Accountant 0% (0)
3 - External consultant 21.88% (7)
4 - Law expert 0% (0)
5 - Professional contacts 6.25% (2)
6 - Friends and/or family 0% (0)
7 - Internet 0% (0)
8 - None 3.12% (1)
9 - Other 0% (0)
19. On a scale of 1-5, rank the level of difficulty that an SME faces in accessing finance.

![Graph showing level of difficulty](image)

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.23% (1)</td>
<td>0% (0)</td>
<td>22.58% (7)</td>
<td>32.26% (10)</td>
<td>41.94% (13)</td>
<td>4.1</td>
</tr>
</tbody>
</table>

20. Rank the following constraints on a scale from 1 to 5 as to how seriously they restrict SME access to finance.

![Graph showing constraints and their rankings](image)

<table>
<thead>
<tr>
<th>Constraint</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>N/A</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The application process is burdensome and bureaucratic</td>
<td>12.5% (4)</td>
<td>0% (0)</td>
<td>25% (8)</td>
<td>21.88% (7)</td>
<td>40.62% (13)</td>
<td>0% (0)</td>
<td>3.78</td>
</tr>
<tr>
<td>2 Documentation requirements (e.g., company registration, financial records, etc.)</td>
<td>6.25% (2)</td>
<td>18.75% (6)</td>
<td>31.25% (10)</td>
<td>18.75% (6)</td>
<td>25% (8)</td>
<td>0% (0)</td>
<td>3.38</td>
</tr>
<tr>
<td>3 The application process is corrupt</td>
<td>16.67% (5)</td>
<td>13.33% (4)</td>
<td>26.67% (8)</td>
<td>10% (3)</td>
<td>16.67% (5)</td>
<td>16.67% (5)</td>
<td>3.47</td>
</tr>
<tr>
<td>4 The bank recognizes limited forms of collateral</td>
<td>6.67% (2)</td>
<td>10% (3)</td>
<td>33.33% (10)</td>
<td>3.33% (1)</td>
<td>40% (12)</td>
<td>6.67% (2)</td>
<td>3.8</td>
</tr>
<tr>
<td>5 Collateral requirements are too high</td>
<td>3.57% (1)</td>
<td>10.71% (3)</td>
<td>10.71% (3)</td>
<td>10.71% (3)</td>
<td>50.57% (15)</td>
<td>10.71% (3)</td>
<td>4.32</td>
</tr>
<tr>
<td>6 The business risk is too high</td>
<td>16.67% (5)</td>
<td>18.75% (6)</td>
<td>28.33% (7)</td>
<td>20% (6)</td>
<td>20% (6)</td>
<td>3.38% (1)</td>
<td>3.2</td>
</tr>
<tr>
<td>7 Inability to prove creditworthiness</td>
<td>22.56% (7)</td>
<td>19.35% (6)</td>
<td>19.35% (6)</td>
<td>19.35% (6)</td>
<td>16.13% (5)</td>
<td>3.38% (1)</td>
<td>2.97</td>
</tr>
<tr>
<td>8 Loan officers are not properly trained to evaluate applications</td>
<td>12.5% (4)</td>
<td>6.25% (2)</td>
<td>21.88% (7)</td>
<td>28.12% (9)</td>
<td>28.12% (9)</td>
<td>3.12% (1)</td>
<td>3.62</td>
</tr>
<tr>
<td>9 The process to receive the loan takes too long</td>
<td>3.33% (1)</td>
<td>3.33% (1)</td>
<td>13.33% (4)</td>
<td>26.67% (8)</td>
<td>50.33% (16)</td>
<td>0% (0)</td>
<td>4.23</td>
</tr>
<tr>
<td>10 The loan options available are unclear</td>
<td>8.67% (2)</td>
<td>16.67% (5)</td>
<td>20% (6)</td>
<td>16.67% (5)</td>
<td>36.67% (11)</td>
<td>3.33% (1)</td>
<td>3.7</td>
</tr>
<tr>
<td>11 The interest rate is too high</td>
<td>0% (0)</td>
<td>0% (0)</td>
<td>3.38% (1)</td>
<td>6.45% (2)</td>
<td>87.17% (27)</td>
<td>3.29% (1)</td>
<td>4.9</td>
</tr>
<tr>
<td>12 The amount that can be applied for is too low</td>
<td>6.9% (2)</td>
<td>27.59% (8)</td>
<td>20.68% (6)</td>
<td>17.24% (5)</td>
<td>20.68% (6)</td>
<td>6.9% (2)</td>
<td>3.38</td>
</tr>
<tr>
<td>13 The length of the loan is too short</td>
<td>8.67% (2)</td>
<td>26.67% (8)</td>
<td>16.67% (5)</td>
<td>13.33% (4)</td>
<td>30% (9)</td>
<td>6.67% (2)</td>
<td>3.53</td>
</tr>
<tr>
<td>14 Other</td>
<td>11.11% (1)</td>
<td>0% (0)</td>
<td>0% (0)</td>
<td>11.11% (1)</td>
<td>55.56% (5)</td>
<td>22.22% (2)</td>
<td>4.67</td>
</tr>
</tbody>
</table>
Donors

1. What kinds of programs does your organization have in place to facilitate SME access to finance?

- Direct provision of financial services: 0% (0)
- Finance enhancements (e.g. loan guarantees, interest rate subsidies, etc): 57.14% (4)
- Advisory services: 100% (7)
- Banking system reforms: 28.57% (2)
- Other: 28.57% (2)

2. How would you rank the following macro-level constraints to SME lending on a scale from 1 to 5?

- Inflation rate: 50% (4), 25% (2), 12.5% (1), 12.5% (1), 0% (0), Mean: 1.68
- Exchange rate: 37.5% (3), 25% (2), 25% (2), 0% (0), 12.5% (1), Mean: 2.25
- Bank reserve requirements: 14.29% (1), 28.57% (2), 14.29% (1), 0% (0), 42.86% (3), Mean: 3.29
- Legal framework (e.g. deposit requirements, bankruptcy laws): 0% (0), 14.29% (1), 14.29% (1), 28.57% (2), 42.86% (3), Mean: 4
- Other: 0% (0), 0% (0), 50% (1), 0% (0), 50% (1), Mean: 4
3. How would you rank the following bank-specific constraints to SME lending on a scale from 1 to 5?

<table>
<thead>
<tr>
<th>Constraint</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to capital</td>
<td>14.29%</td>
<td>14.29%</td>
<td>28.57%</td>
<td>14.29%</td>
<td>28.57%</td>
<td>3.29</td>
</tr>
<tr>
<td>Cost of capital</td>
<td>0%</td>
<td>0%</td>
<td>42.86%</td>
<td>42.86%</td>
<td>14.29%</td>
<td>3.71</td>
</tr>
<tr>
<td>Competition within the banking sector</td>
<td>14.29%</td>
<td>28.57%</td>
<td>14.29%</td>
<td>28.57%</td>
<td>14.29%</td>
<td>3</td>
</tr>
<tr>
<td>Ability of loan officers to evaluate applications</td>
<td>0%</td>
<td>0%</td>
<td>12.5%</td>
<td>25%</td>
<td>62.5%</td>
<td>4.5</td>
</tr>
<tr>
<td>Lending risks</td>
<td>0%</td>
<td>0%</td>
<td>37.5%</td>
<td>25%</td>
<td>37.5%</td>
<td>4</td>
</tr>
<tr>
<td>Profitability of lending to SMEs</td>
<td>0%</td>
<td>0%</td>
<td>12.5%</td>
<td>50%</td>
<td>37.5%</td>
<td>4.25</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
<td>4.5</td>
</tr>
</tbody>
</table>

4. How would you rank the following SME-specific constraints to SME lending on a scale from 1 to 5?

<table>
<thead>
<tr>
<th>Constraint</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>The application process is burdensome and bureaucratic</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
<td>4.5</td>
</tr>
<tr>
<td>Documentation requirements (e.g., company registration, financial records, etc.)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>25%</td>
<td>75%</td>
<td>4.75</td>
</tr>
<tr>
<td>The application process is corrupt</td>
<td>28.57%</td>
<td>28.57%</td>
<td>42.86%</td>
<td>0%</td>
<td>0%</td>
<td>2.14</td>
</tr>
<tr>
<td>The bank recognizes limited forms of collateral</td>
<td>12.5%</td>
<td>0%</td>
<td>0%</td>
<td>37.5%</td>
<td>50%</td>
<td>4.12</td>
</tr>
<tr>
<td>Collateral requirements are too high</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
<td>4.5</td>
</tr>
<tr>
<td>Inability to prove creditworthiness</td>
<td>0%</td>
<td>0%</td>
<td>25%</td>
<td>25%</td>
<td>50%</td>
<td>4.25</td>
</tr>
<tr>
<td>Loan officers are not properly trained to evaluate applications</td>
<td>0%</td>
<td>0%</td>
<td>25%</td>
<td>37.5%</td>
<td>37.5%</td>
<td>4.12</td>
</tr>
<tr>
<td>The process to receive the loan takes too long</td>
<td>0%</td>
<td>0%</td>
<td>57.14%</td>
<td>28.57%</td>
<td>14.29%</td>
<td>3.57</td>
</tr>
<tr>
<td>The loan options available are unclear</td>
<td>0%</td>
<td>37.5%</td>
<td>25%</td>
<td>37.5%</td>
<td>0%</td>
<td>3</td>
</tr>
<tr>
<td>The interest rate is too high</td>
<td>0%</td>
<td>0%</td>
<td>12.5%</td>
<td>25%</td>
<td>62.5%</td>
<td>4.5</td>
</tr>
<tr>
<td>The amount that can be applied for is too low</td>
<td>12.5%</td>
<td>25%</td>
<td>37.5%</td>
<td>12.5%</td>
<td>12.5%</td>
<td>2.88</td>
</tr>
<tr>
<td>The length of the loan is too short</td>
<td>14.29%</td>
<td>14.29%</td>
<td>42.86%</td>
<td>28.57%</td>
<td>0%</td>
<td>2.86</td>
</tr>
<tr>
<td>Other</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>50%</td>
<td>3</td>
</tr>
</tbody>
</table>
5. Please rank the constraints in order of most to least prohibitive to SME lending.

![Graph showing constraints ranking]

<table>
<thead>
<tr>
<th>Constraints</th>
<th>1=most prohibitive</th>
<th>2=moderately prohibitive</th>
<th>3=least prohibitive</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro-level Constraints</td>
<td>37.5% (3)</td>
<td>0% (0)</td>
<td>62.5% (5)</td>
<td>2.25</td>
</tr>
<tr>
<td>Bank Constraints</td>
<td>12.5% (1)</td>
<td>75% (5)</td>
<td>12.5% (6)</td>
<td>2.00</td>
</tr>
<tr>
<td>SME Constraints</td>
<td>75% (6)</td>
<td>12.5% (1)</td>
<td>12.5% (1)</td>
<td>1.38</td>
</tr>
</tbody>
</table>

6. What are the main factors that cause an SME loan application to be denied?

1. Lack of collateral and lack of auditable financial records
2. Quality of application, bankability of SME, unrealistic expectations, lack of financial sector interest in lending money
3. Collateral, lack of registration, lack of accounts, lack of business plan
4. Insufficient documentation and lack of true understanding among banks in Mozambique about the real financial services needs of SMEs
5. Lack of Collateral, Lack of managerial capacity of business owners, Unsufficient bookkeeping
6. Lack of collaterals, non-viable business plan, poor financial performance
7. Very small segment of SME with ability/skills to access a loan; Bank procedures which is to overburden for the capacity of SME, high risks of default
Annex 4: Interview Protocol

SMEs

Topic: Demographic Information
Can you please start by just giving us a brief overview of your business?
- What industry?
- How old is your business?
- How many people does it employ?

What banks does your business use and for what services?

Topic: History of Financing
Tell us about your business's history of accessing finance.
- What funding sources did you use to start the business?
- What other funding sources have you used for expansion and maintenance?
- Why do you prefer those sources over others?

Describe the process and specific steps you took in applying for a loan and/or for a specific access to finance program.

If you have not applied for a loan, why not? (Note: ONLY ASK THIS IF ANSWER ABOVE IS NO)

What informational sources do you rely on in seeking finance?

What has worked in your experience in accessing finance? What has not worked?

Topic: Perceptions of Constraints
What do you think are the most significant constraints to SMEs in accessing finance and why?
- Are there any advantages/disadvantages that are particular to SMEs working in the extractive industry?

Business owners recognize high interest rates, lengthy application process, and high collateral requirements as significant constraints in accessing finance. What do you think of these and why?

What is your perception of the government's impact on the availability of financing?
- What do you think of the government's capacity to enhance the business enabling environment?
- What do you think of the government's capacity to regulate banks?
- What do you think of the government's capacity to enforce laws?

What is your perception of banks' interest in lending to SMEs?
- Have you been contacted by your bank regarding SME loan products?

What is your perception of the banks' capacity to evaluate loan applications?
- Are you aware of the banks' processes for evaluating a loan application?
- What if you applied for a loan, how was your business evaluated?

Do you believe that banks offer sufficiently tailored loan products for SMEs? Why or why not? Provide examples if possible.
Topic: Opportunities SMEs would like to see in the access to finance arena  
What opportunities exist for SMEs to improve their ability to access finance? (Overcoming own shortcomings. Programmatic opportunities)

What other kinds of opportunities would be helpful or beneficial?  
How do you foresee the access the finance landscape changing in the country with the LNG advances?
Donors/Government

**Topic: General thoughts on access to finance conditions in Mozambique**

Overall, what are your thoughts about the current access to finance conditions in Mozambique?

- Has the access to finance landscape changed in the country over the last 5-10 years? In what ways?
- How do you foresee the access the finance landscape changing in the country with the LNG advances?

**Topic: Constraints that SMEs face in accessing finance from donors’ perspective**

What factors would you identify as constraining SMEs in accessing finance?

- From the responses to our initial survey, donors noted documentation requirements, high interest rates, and a burdensome and bureaucratic application process as the top three constraints that **SMEs face in accessing finance**. What do you think of these specific factors?
- Our survey results show that SMEs identified high interest rates, lengthy process of receiving a loan, and high collateral requirements as significant constraints in accessing finance. What do you think of these identified constraints and why?
- Are there any advantages/disadvantages that are specific to SMEs working in the extractive industry?

What bank-specific factors would you identify as constraints to SME lending?

- From the responses to our initial survey, donors noted ability of loan officers to evaluate applications, lending risks, and limited profitability of lending to SMEs as the **top three bank-specific constraints to SME lending**. What do you think of these identified constraints and why?

What macro-level factors would you identify as constraints to SME lending?

- From the responses to our initial survey, donors noted bank reserve requirements and the legal framework as the **top two macro-level constraints to SME lending**. What do you think of these identified factors and why?

In your experience working within the SME finance arena, are loan products for SMEs sufficiently tailored to meet needs of SMEs within the LNG supply chain? If not, what aspects are missing?

What is your perception of the government's impact on the availability of financing?

- What do you think of the government's capacity to enhance the business enabling environment?
- What do you think of the government's capacity to enforce laws?
- What do you think of the government's capacity to regulate banks?

Given the choice between macro-level environment, bank’s capacity, or SME capacity, which would you consider the most restricting to SME access to finance? Why?

- Donors rated SME-specific constraints as most prohibitive factors in accessing finance. Do you agree/disagree? Why?

**Topic: Donor-specific programs that are working in the access to finance sphere.**
What kinds of program does your agency offer specifically to facilitate SME access to finance?

As you think long-term about the future of SMEs’ access to finance in Mozambique, what types of investments/programs is your agency or others in the government aiming to make within the finance sphere?

Topic: Future challenges and opportunities for SME financing within the LNG supply chain.
What challenges and opportunities do you foresee the LNG bringing for SMEs in the supply chain?

Can key players in the extractive industries use their influence to improve their access to finance environment? And if so, how?
Banks

**Topic: Demographic Information/Statistics**

Can you please start by telling us about your bank and its SME clients?
- What percentage of your clients are SMEs?
- What services do they use?
- Do you have any official statistics that detail coverage and other general information?

What about lending to SMEs?
- How do you determine interest rates? What is normal?
- What is your level of non-performing assets among SMEs?
- Do you have any data about your banks SME lending activities?

**Topic: SME Services Offered**

What services does your bank offer to SMEs?
- Do you have a dedicated SME department?
- What financial products are available to them?
  - What are the most commonly used products?
- What kinds of non-financial services are offered to them?
  - How frequently are these used?
- Are any of these specifically for SMEs?

Can we walk through an actual loan application process?
- How do you evaluate an SME loan application?
- What kind of collateral is acceptable and how is it valued?

How does the bank reach out to potential SME clients?

**Topic: Perceptions of Constraints**

What do you think are the most significant constraints in SMEs accessing finance and why?
- What can SMEs do differently to be seen as being lower risk?
- Are there any advantages/disadvantages that are particular to SMEs working within the extractive industry?

What constraints does your bank face in lending to SMEs?
What are the most significant macro-level constraints faced by banks and SMEs in accessing finance?

Business owners recognize high interest rates, lengthy application process, and high collateral requirements as significant constraints in accessing finance. What do you think of these and why?

Donors identified documentation requirements, high interest rates, and a burdensome and bureaucratic application process as the most significant constraints in accessing finance for SMEs. What do you think of these and why?

What is your perception of the government's impact on the availability of financing?
- What do you think of the government's capacity to enhance the business enabling environment?
- What do you think of the government's capacity to regulate banks?
- What do you think of the government's capacity to enforce laws?

*Topic: Opportunities Banks Would Like to See*

**What role do you believe the government should play in enabling lending to SMEs?**
- How capable is the government of meeting these expectations?

Do you think there are any gaps in the SME access to finance arena that may be filled by actors, such as MFIs, government, donor agencies, or partnerships between the aforementioned? If so, what are they?

How do you foresee the access the finance landscape changing in the country with the LNG advances?
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Washington D.C.: USAID.


