The Challenges of Access to Financial Services in the Agricultural Sector in Mozambique

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Executive Summary

The development of agricultural sector is crucial for the development of the country as it contributes with about 23% to the GDP and employs about 80% of the labor force. The development of agriculture is part possible with and improvement of farmers' access to financial services. In Mozambique, there are different mechanisms for farmers' access to financial services both formal and informal and the patterns of farmers' access to financial services and products have been changing over time. This raises the following questions: What are the trends of farmers' access to financial services and how these trends evolve overtime? This question is answered through the analysis of the following specific objectives: (i) to review the policy framework guiding farmers' access to financial services; (ii) to describe the financial organizational set up and functions; (iii) to analyze the trends of farmers' access to financial services; and (iv) to identifying the key challenges and opportunities faced by farmers for accessing to financial services. In order to analyze these objectives, this study uses a qualitative approach through which data collected from different sources are analyzed qualitatively (description of key variables reasoning of their behavior and trend analysis) and constraints and opportunities are drown for expanding access to financial products and services to agricultural producers.

The results of this qualitative analyze show that Mozambique has policy instruments governing the agricultural sector. However it needs to be updated to cover the dynamic of the agricultural sector and especially the emerging issues such as climate change. The current ongoing process of drafting the new generation of PEDSA and PNISA might help in adjusting the agricultural policy instruments to respond to the current issues.

Regarding the policy guiding and promoting farmers' access to financial products and services, it can be said that they exist. The key policy instruments related to farmers' access to financial products and services are the Economy Bancarization Strategy; the Rural Financing Strategy; the Strategy for the Development of Financial Sector; and the National Strategy for Financial Inclusion. These policies are limited as they do not present clearly the actions to be taken for improving farmers' access to financial products and services. It is important to note that these policies recognize the need of improving access to financial products and services mainly in rural areas and the use of informal mechanisms such as ASCAs. However, they do not propose key action to expand sustainably the use of ASCAs and other means of increasing farmers' access to financial products and services.

It should also be noted that the study found that the structure of financial organizations in Mozambique include both formal and informal institutions and by far, the informal institutions (ASCAs and outgrowers) are mainly used by farmers as mechanisms for having access to financial products and services. The access to formal services is estimated to be 32.9% implying that 26.32% of farmers had access to physical or electronic access to formal financial services in 2018. However, the formal mechanisms are accessed mainly by men as this group is more engaged in formal jobs comparing to women counterparts. In fact, although the number of bank accounts per 1,000 adults has been increasing over time, its distribution between men and women is skewed. The bank accounts holders are more men than women and during the analyzed period almost 60% of bank accounts belonged to men.

The percentage of adults having electronic money account through mobile phone increased from 1% in 2012 to 40% in 2016. Considering that 80% of labor force is engaged in agriculture, we can imply that about 32% of the farmers had mobile money accounts in 2016. This estimation should be

verified by collecting and analyzing data regarding the number of farmers using mobile account through national surveys. The use of electronic money account through mobile phone is increasing especially for women. The study found that in 2015 men were using more mobile account than women but the women counterparts have practically matched the use of mobile accounts in 2017 with minimal difference of 9 percentage points (81% for women vs 90% for men). These results suggest that the promotion of mobile accounts might promote the inclusion of women in accessing financial services.

Another mechanism benefiting farmers and especially women (67%) is the ASCAs. The key feature of ASCAs is its geographical coverage as it is present in all districts with coverage rate above 50% in all provinces except Zambezia with coverage rate of 41%. The other mechanisms such as government programs (SUSTENTA and FDA) and outgrower system are also crucial for the increasing farmers' access to financial services. However, the results about the number of beneficiaries of those systems is disperse, which make it difficult to access the real level of farmers' access to financial services and therefore similar from the mobile account, there is a need of estimating accurately the rate of farmers using ASCAs as well as other mechanisms such as outgrowers as mean of accessing to financial services by collecting and analyzing respective data through national surveys. Additionally, the accurate number of farmers benefiting from financial services provided by the different providers can be accessed by specific study involving as target study population these organizations.

Combining the existing data analyzed in this report (beneficiaries of formal financial services and holders of electronic money account through mobile phone), it can be concluded that farmers' access to financial services is around 30%.

Similar from past studies, the limiting factors of accessing financial services for agricultural producers include: (i) The low agricultural productivity and production coupled with the fact that the agricultural producers cannot use land as collateral for loans; (ii) limited coverage of formal financial institutions and services; (iii) high interest rates coupled with lack of agricultural insurance; (v) farmers' illiteracy regarding financial markets and (iv) limited government institutionalization of informal mechanisms for promoting access to financial services coupled with limited regulation of these informal mechanisms which are clearly crucial for expanding farmers' access to financial services.

Acronyms

ASCAs	Accumulative Savings and Credit Associations
BCI	Banco Comercial e de Investimentos
BM	Bank of Mozambique
CAADP	Comprehensive African Agricultural Development Program
ECA	Empresa de Comercialização Agrícola
ETG	Export Trading Group
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
INE	Instituto Nacional de Estatística
MASA	Ministério da Agricultura e Segurança Alimentar
PAEI	Politica Agrária e Estratégia de Implementação
PEDSA	Plano Estratégico para o Desenvolvimento do Sector Agrário
PNISA	Plano Nacional de Investimento no Sector Agrário
PQG	Plano Quinquenal do Governo
ROSCA	Rotating Savings and Credit Group
SSA	Sub-Saharan Africa

1. Introduction and background

During the period 2011 - 2015, Mozambique's Gross Domestic Product (GDP) growth was amongst the highest in Sub-Saharan Africa (SSA), averaging 7% per year. In subsequent years, the scenario changed to a downward trend, mainly due to an economic crisis and the unsustainable debt. Consequently, GDP growth decelerated to 3.8% in 2016 and 3.7% in 2017. Additionally, annual average inflation increased from 3.6% in 2015 to 18.0% in 2016, decreasing slightly to 15.5% in 2017. Moreover, small and medium-size enterprise profitability levels, and capacity to generate employment, have also decreased. The balance of payments for the current account fluctuated from a negative 2.2 billion USD in 2011, to a negative 498 million USD in 2017. This change was mainly due to a decrease in imports, influenced by limited availability of funds for purchasing foreign products and services. Also, limited funds were in part due to the withdrawal of development partners from funding government activities, and to invest in Mozambique, resulting in a decrease in foreign direct investment (FDI) levels from an average of 4.8 billion USD per year during the period from 2011 to 2015, to 3.1 billion USD in 2016, and 2.3 billion USD in 2017. This slowing and erratic macro-economic performance has adversely affected Government revenues and fiscal imbalance, and a decrease in external assistance and public expenditure for all sectors and functions of the Government.

However, the contribution of agriculture to the economy did not change significantly and its contribution to GDP remained stable at about 23% during the period 2013- 2017 (Table 1). Apart from service sector, which is composed of several economic activities/sub-sectors, agriculture is the main contributor to the GDP. The relative importance of the agricultural sector is even greater when other related sectors (industry, manufacturing and services) are taken into consideration, and which are directly driven by the agricultural sector, as well as by the fact that approximately 80% of the total labor force in the country is employed in agricultural or related activities.

Table 1 Structure of the Economy and Sector Contributions to GDP (2013 – 2017)

Sector	2013	2014	2015	2016	2017
Agriculture	24	23	23	23	21
Manufacturing	9	9	9	9	9
Industry.	8	10	11	11	16
Services	59	58	57	57	54

Source: INE (2019)

It is also recognized that the development of agriculture sector can in part be guaranteed by improving farmers' access to financial services. The importance of financial services to the development of agricultural sector is shown in the national, regional, continental and global agricultural policy instruments such as the strategic plan for the development of agriculture sector known as the *Plano Estratégico para o Desenvolvimento do Sector Agrário (PEDSA),* the national agriculture investment plan known as the *Plano Nacional de Investimento no Sector Agrário (PNISA),* Malabo Declaration, Agenda 2030, among others. For example, the PNISA under the Expanded and Inclusive Access to Markets Result area includes the Financial Service Program with the objective of playing a catalytic role in broadening the reach of digital payment systems, particular in poor and rural areas, and to expand the range of services available on those platforms. The Agenda 2030 also recognizes the need of doubling the agricultural productivity and incomes of small-scale producers through improving access to financial services in order to end hunger, achieve food security and improved nutrition and promote sustainable agriculture. Similarly, the Malabo Declaration calls for ensuring that 100% of men and women engaged in agriculture have access to financial services to be able to transact agriculture business, by 2025.

Although agriculture is a key sector for the development of the country and the development of agriculture is in part dependent on farmers' access to financial services, about 80% of smallholder farmers do not have access to formal financial services (FSDMoç, 2017). According to the same author, the main mechanism for accessing to financial service is through informal sector covering about 12% of smallholders. Looking at the patterns of the use of informal service, the xitique both in urban (7%) and rural areas (9%) is the key mechanisms for accessing financial services (FSDMoç, 2017). There is also growing use of ASCAs as they have been increasingly promoted by development partners' programs. Access to credit is also extremely low, with only 1% of smallholders accessing to it.

FSDMoç (2017) points as the main reason for this exclusion the following: (i) the physical distance between smallholders and the access points of the financial services, (ii)low income levels of farmers, (iii) low educational levels of farmers as it hinder participation in informal savings schemes and make mobile technology difficult to access, (iv) small plot sizes, which makes it difficult to produce enough for family consumption and with leftovers to sell or trade, (v) limited attraction of agriculture as an occupation as the agriculture still not profitable business in many cases and with erratic income.

Due to the above constraints, farmers have been relying on informal mechanisms for accessing to financial services and the patterns of using these mechanisms have been evolving overtime. This fact raises the following questions: "What are the trends of farmers' access to financial services and how these trends evolve overtime? This question is answered through the analysis of the following specific objectives: (i) to review the policy framework guiding farmers' access to financial services; (ii) to describe the financial organizational set up and functions; (iii) to analyse the trends of farmers' access to financial services; and (iv) to identifying the key challenges and opportunities faced by farmers for accessing to financial services.

1.1 Scope and relevance

This is a desk study based mainly on the existing studies and data on financial services. The study reviews the existing policy, organization and trends on access to financial services using the available data. The analysis is also used to draw some challenges and opportunities. The study is useful as it will provide data to be reported in the national, regional, continental and global commitments that the country is requested to report regarding farmers' access to financial services. Importantly, the study will shed a light on the status of the farmers' financial inclusion highlighting the key drivers and challenges which can be used to design and implement policies, programs and projects towards improving farmers' access to financial services.

1.2 Structure of the report

The report is composed of 6 chapters. This introductory chapter is followed by the approach, data and methods used in this study. Chapter 3 describes the policy framework and organizational set up for expanding farmers' access to financial products and services and it is followed by the analysis of trends in farmers' access to financial services (Chapter 4). Chapter 5 describes the farmers' challenges and opportunities for accessing to financial products and services. Lastly, chapter 6 presents the conclusions and recommendations resulting from the analysis performed in this study.

2. Approach, data and methods

The approach is mainly qualitative through which data collected from different sources are analyzed qualitatively (description of key variables reasoning of their behavior and trend analysis) and constraints and opportunities are drown for expanding access to financial products and services to agricultural producers. For the first objective (review the policy framework guiding the farmers' access to financial services) the main regulatory framework related to provision of financial products and services are described stressing the keys issues related to access to financial products and services highlighted in these regulatory framework documents. Similarly, for the second objective (description of the financial organizations and their respective functions), literature review related to organizational structure of financial sector in Mozambique was conducted and highlighting the type and compositions of the different organization, their functions and the relative importance in terms of providing opportunity for farmers' access to financial products and services. For the third objective (analysis of the trends of farmers' access to financial services), the rate of coverage of the different financial products and services throughout the country, for both formal and informal to the population and especially to farmers is described and where the data exist the analysis is performed separating by gender. The evolution of the rate of access to these financial products and services is explained using the existing enabling environment mainly legal framework and the socioeconomic context of the country. Finally, the results obtained from the three objectives coupled with the literature review are used to draw constraints and opportunities for expanding the farmers'access to financial products and services. The main source of data are the available previous studies and legal framework documents and the 2015/16 and the 2017/18 Malabo biennial reports.

3. Overview of the financial sector services in the agriculture sector

3.1 Key definitions

Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business. The financial aspects include money matters relating to production of agricultural products and their disposal. Tandon and Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units." The same author defended that agricultural finance studied at both micro and macro level. Macrofinance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling different agricultural credit institutions and therefore it is related to financing of agriculture at aggregate level. Micro-finance refers to financial management of the individual farm business units and it is concerned with the study of how the individual farmer considers various sources of credit, amount of credit to be borrowed from each source and how to allocate the same among the alternative uses within the farm including the future use of these funds.

A key emerging concept in agricultural finance is the financial inclusion. According to Bank of Mozambique (2015), financial inclusion is defined as the process of awareness, access and effective use of financial products and services offered by regulated institutions to the population as a whole, contributing to enhance their quality of life and social welfare.

3.2 Policy framework

A variety of agricultural sector policies, strategies, programs and plans guide and influence the development of the agricultural sector in Mozambique. The main policies in the last five years are the Agricultural Policy and its Implementation Strategy (commonly referred to as PAEI – "*Politica Agrária e Estratégia de Implementação*"); Strategic Plan for the Agricultural Sector Development (commonly referred to as PEDSA – "*Plano Estratégico de Desenvolvimento do Sector Agrário*") 2011-2020, and the National Agricultural Investment Plan (commonly referred to as PNISA – "*Plano Nacional de Investimento do Sector Agrario*") 2013-2017 (and extended to end of 2019) and the Five-year government program (commonly referred to as PQG – *Plano Quinquenal do Governo*) and the regional strategic documents such as the Comprehensive African Agricultural Development Program (CAADP).

The PAEI aims to promote agricultural production, which contributes to self-sufficiency and food supply and increase the levels of commercialization of agricultural products including exports. The PAEI is the key document guiding the development of agricultural sector. The PEDSA and PNISA resulted from the implementation of the Comprehensive African Agriculture Development Program (CAADP), which aims to accelerate economic growth and development of African countries. The CAADP which is guided mainly by the Maputo and Malabo Declaration aims at (i) achieving a 6% annual growth for the agriculture sector and (ii) allocation of at least 10% of the state budget to agriculture sector. In this regard and through the Malabo Declaration, the CAADP process calls for ensuring that 100% of men and women engaged in agriculture have access to financial services to be able to transact agriculture business, by 2025.

The Government of Mozambique used the CAADP framework to design and implement Strategic Plan for Agriculture Sector Development (PEDSA 2010-2019). The PEDSA vision is "a prosperous, competitive and sustainable agricultural sector capable of providing sustainable responses to the challenges of food and nutritional security and reaching agricultural markets globally". To materialize this vision, the strategic plan defines the following general objective: “contribute towards the food security and income of agricultural producers in a competitive and sustainable way, guaranteeing social and gender equity”.

In order to implement the PEDSA, the Mozambique Government approved the National Agricultural Investment Plan-PNISA (2013-2017). PNISA is composed of 21 programs and 65 sub-programs under five components namely: (i) Agriculture production and productivity, (ii) Access to market, (iii) Food Security and Nutrition, (iv) Natural Resources, and (v) Institutional Reforms and Strengthening. One of the programs of the PNISA second component (Access to Market) is the Financial Services with the objective to play a catalytic role in broadening the reach of digital payment systems, particular in poor and rural areas, and to expand the range of services available on those platforms.

In line for the implementation of PEDSA and PNISA and mainly for expanding access to financial services, the Government of Mozambique approved policy instruments namely the Rural Development Strategy, the Economy Bancarization Strategy in 2007; the Rural Financing Strategy in 2011; the Strategy for the Development of Financial Sector in 2013; and the National Strategy for Financial Inclusion in 2015. The Rural Development Strategy (2007-2025) states clearly the need of expanding financial services to rural areas in order to increase competitiveness, productivity and wealth in rural areas. In its first objective related to the promotion of competitiveness, productivity and wealth accumulation in rural areas, this strategy recognizes that the accomplishment of this objective should in part be through expanding bank services and financial activities in rural areas and especially by increasing bank services including insurance services, rural finance and other means of increasing the availability and access to financial services to the rural population. The pillars of the Mozambique Financial Sector Development Strategy (MFSDS) 2011-2020 include maintaining financial sector stability, supporting inclusive economic growth, developing formal financial services and rapidly expanding financial access. One of the strategy’s objectives is the development and delivery of new financial products for rural areas through use of, for example, community based savings models to lower the costs of providing financial services to rural populations. Specifically, it calls for continued support for accumulated savings and credit associations (ASCAs), recognizing that they often originate as informal groups. Additionally, the plan proposes the development of alternative models that have worked elsewhere, namely the creation of networks of credit cooperatives by grouping associations along value chains.

The Strategy for the Development of Financial Sector (2013-2022) aims to reach a financial sector which is strong, inclusive, competitive, transparent resilient and promote economic development. It centers in developing activities for fulfilling the following strategic actions: (a) improving access to financial services and support for inclusive growth through (i) promotion of financial services inclusion; (ii) development of microfinance and Micro-payments sectors; (iii) strengthen financial sector infrastructure; (iv) development of microfinance and micro-payments sectors e (v) expansion of financial services for rural areas.

Similarly, the National Strategy for Financial Inclusion (2016-2022) was designed and approved to help to build an inclusive and comprehensive financial system through knowledge, access and use of continuous basis of adequate financial products and services that can contribute to improve the welfare and quality of life of the population and towards the country’s economic development, by supporting the operations of the business sector, including smallholders and Micro, Small and Medium Enterprises (MSME). Its pillars include: (a) the access and use of financial services, (b) strengthen financial infra-structure; and (c) financial consumer protection and financial literacy. This strategy targeted at (i) reach by 2022 40% of the adult population with physical or electronic access to financial services offered by a formal financial institution. It also envisioned also to reach by 2018 75% of districts with at least one access point to formal financial services, 55% of the population with one financial services access point within 5 km from their place of residence or work, 60% of the adult population with physical or electronic access to financial services offered by a formal financial institution; and by 2022 reach 100% of the districts with at least one formal access point to financial services and 75% of the population with one financial services access point within 5 km of their place of residence or work.

The implementation of these strategic documents are supported by different legal instruments such as the Notice 1/GBM/2015, from which the Bank of Mozambique (BM) defines the criteria for authorizing the opening and closure of bank branches with a goal to ensure a proportionate distribution of the bank branch network, guaranteeing an equitable distribution of financial services at a national level; the Notice 03/GBM/2015, from which BM establishes the terms and conditions under which banks and microbanks can extend their activity through banking agents; Law Nº 9 / 2004 July 21, which enabled the creation of electronic money institutions recognizing the potential importance of mobile banking in expanding the provision of financial services to underserved areas and populations; Notice 06/GBM/2015, through which the BM set measures for protection of the funds resulting from the issuance of electronic money, guaranteeing the security of the deposits of the users. Additionally, there was approved the Law Nº6/2015, which allows for the establishment of privately owned credit bureaus and defines the requirements in terms of legal statute and ownership and its respective regulation through the Decree 11/2016, which created an enabling environment for local and international companies to establish private credit information systems; Notice 3/ISSM/2015, which set limits to microinsurance activity and established the maximum amounts to be covered per type of microinsurance product, including microinsurance for agricultural activities.

3.3 Organizational framework

Mozambique has both formal and informal institutions providing financial products and services to the population. Figure 1 below presents the organizational arrangements of financial institutions in Mozambique. The formal financial sector is divided into four main categories namely the credit institutions, financial companies, capital market institutions and Insurance and Pensions Market Institutions. The first two are supervised by the Bank of Mozambique and the third and the fourth by the Institute of Insurance Supervision of Mozambique. The credit institutions are composed of Banks, Microbanks, Credit Cooperatives, E-Money Institutions, Leasing Companies, Investments Companies, Saving and Credits Organizations and Microcredit Operators. The financial companies are composed Money Exchange, Brokerage Companies, Venture Capital Companies, Shopping Administrators, Corporate Group and Credit Card Issuers. The capital market institutions are comprised by stock exchange and stock operators and the Capital Market Institutions are composed of Insurance Companies, Insurance brokers, Social Security Institutions Pension Funds Pension, and Funds Management Companies.

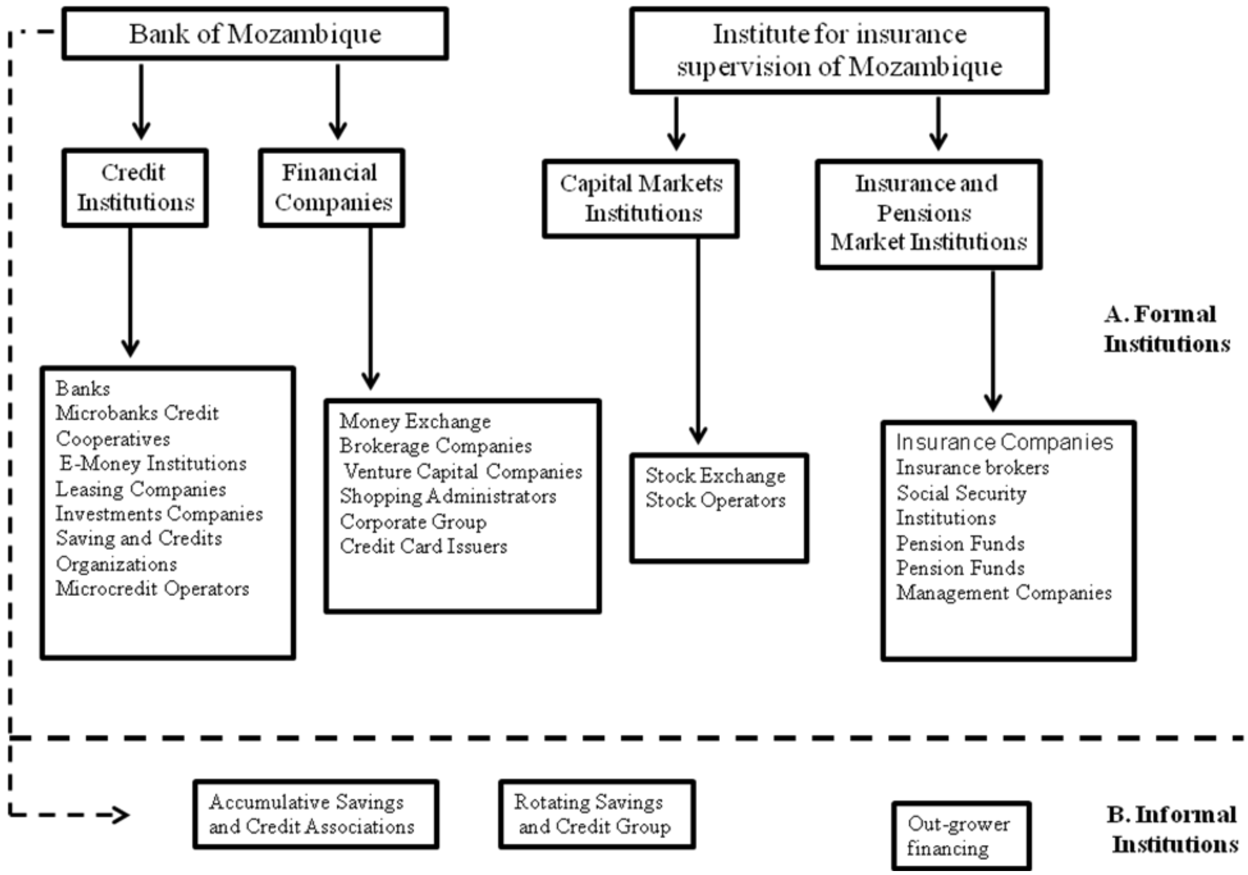

Figure 1. Structure of financial institutions in Mozambique

The main organizations providing financial products and services to the farmers in Mozambique are the credit institutions, which are mainly bank institutions, microfinance institutions and Non bank institutions. Table 2 below presents the trend of the number of credit institutions in Mozambique. Table 2 reveals that in general there is an increase in number of credit institutions over time. However, this increase is not substantial except for the number of microcredit operators which increased by 37% from 2015 to 2017.

The commercial banks also provide digital financial services. There are three digital financial services:

(i) The Tako Móvel is a BCI (Banco Comercial e de Investimentos) mobile banking solution that allows its clients to perform a number of banking transactions, including balance inquiries, money transfers, and payments. As part of its money transfer services, BCI clients can transfer money from a BCI bank account to any cell phone, allowing the owner of the cell phone to cash out the money at an ATM without having a bank account or a debit card. Through this service, money transfers can be performed within the country between a banked user and non banked user, in effect providing the non banked user access to formal financial services.

(ii) The Millennium IZI is a mobile banking service available on any mobile phone that allows Millennium BIM customers to perform a number of banking transactions, such as balance inquiries, transfers, and payment, and some account management operations, such as credit card cancellation, PIN blocking, and changes from a mobile device. This solution provides increased convenience to BIM's clients by reducing costs of transactions by eliminating the travel costs to reach a bank branch to perform these basic transactions.

(iii) Manda Mola enables FNB clients to transfer money from an FNB bank account to any cell phone, allowing the owner of the cell phone to cash out the money at an ATM, or pay for services available at the ATM without having a bank account or a debit card. Through this service, money transfers can be performed within the country between a banked user and non banked user. It also provides a non banked user access to formal financial services.

Table 2. Number of financial institutions in Mozambique

Type of Institutions	Years		
	2015	2016	2017
Bank institutions			
Banks	18	19	19
Micro banks	11	10	9
Loan Cooperatives	9	9	8
Microfinance institutions			
Saving and lending institutions	10	12	12
Microcredit Operators	341	380	466
Non Bank Institutions			
Electronic Money Institutions	2	3	3
Insurance institutions	18	19	20

Source: Bank of Mozambique (2018)

The mobile money operators are also important in expanding access to financial services. Mozambique has three mobile operators providing mobile money products*, mKesh, M-PESA and e-Mola,* owned by *TmCel, Vodacom and Movitel*, respectively. The *mKesh and M-PESA* dominate the mobile money in Mozambique and they were the first to be established. In terms of accessibility, *mkesh* estimates that 20% of its agents and customers were in rural areas compared to 30% of *M-Pesa* agents and customers in 2016. Together, *mKesh and M-Pesa* have recruited a total of 24,725 agents, of which about 83% were *M-Pesa* agents in 2016. The volume of deposits in *mKesh and M-Pesa* has increased substantially by 274% from 2013 to 2016 and this pattern is still the same as there are more clients adhering to mobile money.

As portrayed in Figure 1 above, in addition, there are other semi-formal financial institutions that are not supervised or regulated, such as community based organizations for example the Accumulative Savings and Credit Associations (ASCAs), the Rotating Savings and Credit Group (ROSCA), individual agents (e.g., money lenders), and market linkage institutions (e.g., outgrower companies). These institutions are considered as semi-informal as they are not formally regulated by the Bank of Mozambique and the Bank intervenes sometimes to guarantee the rules and procedures are followed in order to avoid frictions among the involved parts. This is a limitation to be overcomed as these institutions manage considerable volume of money.

The ASCAs have been increasingly providing financial products and services mainly to the rural population. According to FSDMoç (2017), in 2014, there were about 12,481 ASCAs and the number of clients grew from approximately 65,000 clients in 2012 to 227,979 clients in 2014, growing almost four times more in a period of 2 years. In 2015, there were about 300,000 clients. Total savings under ASCAs also grew significantly during the 2012-2014 period, from about MZN 27million in 2012 to MZN 363 million in 2014.

Out-grower financing is an important source of finance for smallholders who sell to large buyers, particularly commercially driven smallholders. It has also been an important source of training farmers in good agricultural practices. The main out-grower financing are João Ferreira dos Santos, Portucel Moçambique, Empresa de Comercialização Agrícola (ECA), and Export Trading Group (ETG)

João Ferreira dos Santos (JFS) was founded in Mozambique in 1897 and it is involved in production and processing of agricultural products mainly cotton, rice, sisal, cashew nut, tea, citrus, tobacco, maize, sesame, soya. In 2016, the company operated in eight districts of Niassa province, working with approximately 35,000 small farmers, providing them training and all necessary farming inputs (in a fully subsidized microcredit model). The annual credit value varies from $0.5 million to $1 million (with an annual default rate of less than 10 percent), and it purchases cotton from farmers, spending about $10 million in cash, without any middlemen.

Portucel Moçambique is a Mozambican company established in 2009 by the Navigator Company (formerly Portucel Soporcel Group), which is setting up Mozambique's largest integrated forestry project to produce paper pulp and energy and it has been implementing a Social Development Programme (SDP) since 2015. The program has two main objectives: improve food security and quality of life of smallholders. In 2016, the SDP had reached 5,400 families through the agricultural extension system, providing access to seeds.

Empresa de Comercialização Agrícola (ECA), Agricultural Marketing Company is a food processing company that works with about 5,000 small producers, linking them to the market. The company provides farmers with inputs (seeds, fertilizers, etc.) on credit and guarantees support in extension services to enable them to produce better maize, peanuts, and soybeans.

Export Trading Group (ETG) is a multinational agribusiness with operations in 26 African countries. It provides links to several farmer associations so their smallholder members can sell to major markets. In Manica province, nearly 4,700 farmers have received advances from ETG through farmers' associations to purchase sesame and pigeon peas from their members, which they then sell to ETG at an agreed-upon higher price, generating a new market.

There are also other actors that provide financial assistance to smallholders, including commercial advances for traders and producers and government funds such as the District Development Fund and credit line provided by different Government institutions such as the Agricultural Development Fund.

4. Analysis of trends in access to financial services in the agricultural sector

One of the factors limiting the development of agricultural sector in developing countries like Mozambique is the farmers' limited access to financial services. In order to revert this situation, the different policy frameworks have been enacted and the main examples of these frameworks for Mozambique is the Malabo Declaration at the continental level, the regional agricultural policy at regional level and the National Financial Inclusion Strategy (2016-2022) at the national level. The Malabo Declaration calls for ensuring a 100% of men and women engaged in agriculture having access to financial services to be able to transact agriculture business by 2025. The National Financial Inclusion Strategy targets to have 40% and 60% of the adult population with physical or electronic access to financial services offered by a formal financial institution by 2018 and 2022, respectively. Related to agricultural sector, this strategy has as a target to reach 3.5% and 5.0% of the credit to agriculture in proportion to the total bank credit to the economy by 2018 and 2022, respectively.

The National Financial Inclusion Strategy was evaluated by the Bank of Mozambique (2018) and the results show that the proportion of adult population with physical or electronic access to financial services offered by a formal financial institution is 32.9% which is 7.1 percentage points lower than the envisioned target (40%). Considering that about 80% of adults are engaged in agriculture, it can be implied that 26.32% of farmers had access to physical or electronic access to financial services in 2018. Related to the target on the proportion of agricultural credit to the total credit, the assessment of the Bank of Mozambique does not indicate the actual numbers. However, study conducted by World Bank (2019) reveals that during the period from 2013 to 2017 the agricultural sector credit relative to total credit in the economy fluctuated between 6% in 2013 and 8% in 2015 (Figure 2). These results indicate a positive progress comparing with the stipulated target of 5% by 2022.

However, as shown in Figure 2 the share of total credit by selected sectors1 is among the smallest for the agricultural sector. This suggests that despite the importance of the agriculture sector in terms of its contribution to GDP, it receives a smaller share of the total credit in the economy (Figure 2). It is also important to note that data from IAI and reported in the BR report indicate a rate of 1% of farmers having access to credit.

[1] Selected sectors include agriculture, industry, construction, tourism, trade, and transport; which are key sectors in the economy.

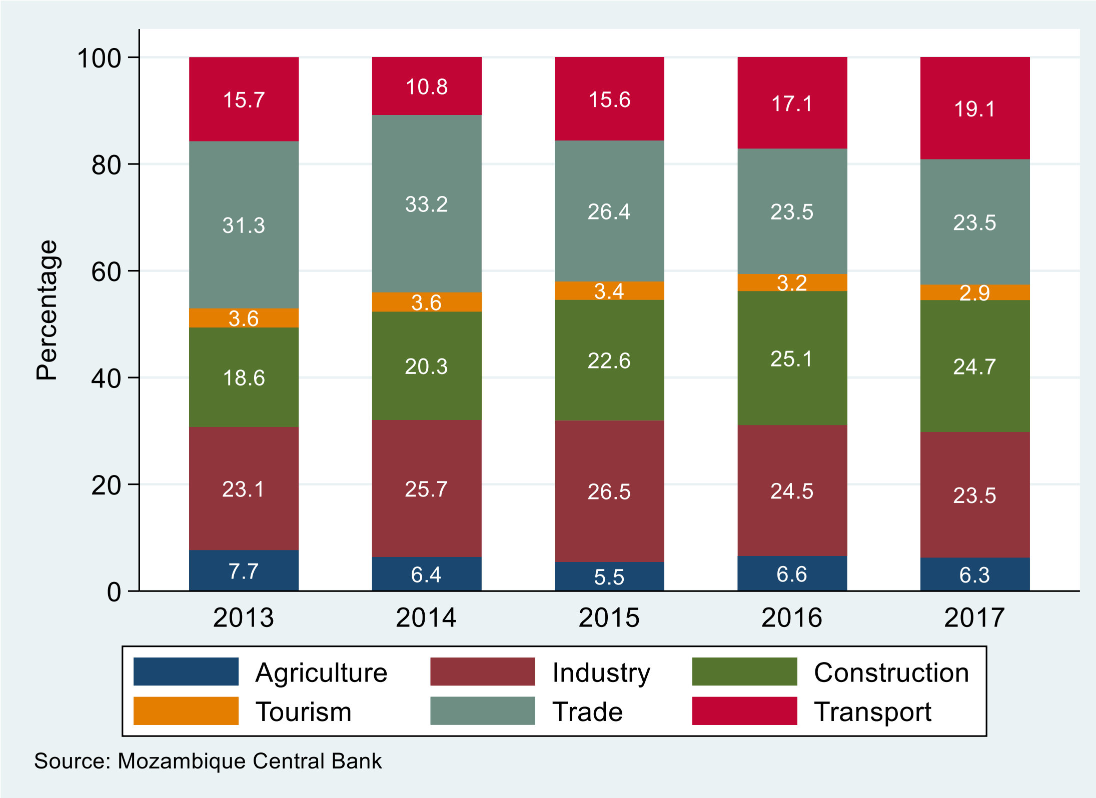

Figure 2 Contribution of selected sectors to total credit among those sectors

Figures 3 disaggregates agricultural credit by sub-sector during the period 2013 to 2017 and shows that the subsectors that receive the greats amount of credit are crops (67% of total credit), fishery (19%), and livestock (9%). Further analysis of the data shows that in the crop sub-sector, for the period 2013 to 2017, the crops that were able to secure the greatest levels of credit were mainly cash crops including cotton (13% of crop credit), cashew nuts (10%), tea (9%), and sugarcane (5%). These four cash crops together accounted for 37% of the total credit allocated to crops. This suggests a sizable proportion of agricultural sector credit allocated to the crop subsector is allocatted to cash crops. The few smallholders having access to credit in production of cash crops is through the outgrower mechanism. These results suggest that the majority of smallholders who mainly produce staple foods such as maize, beans and cassava does not have access to credit.

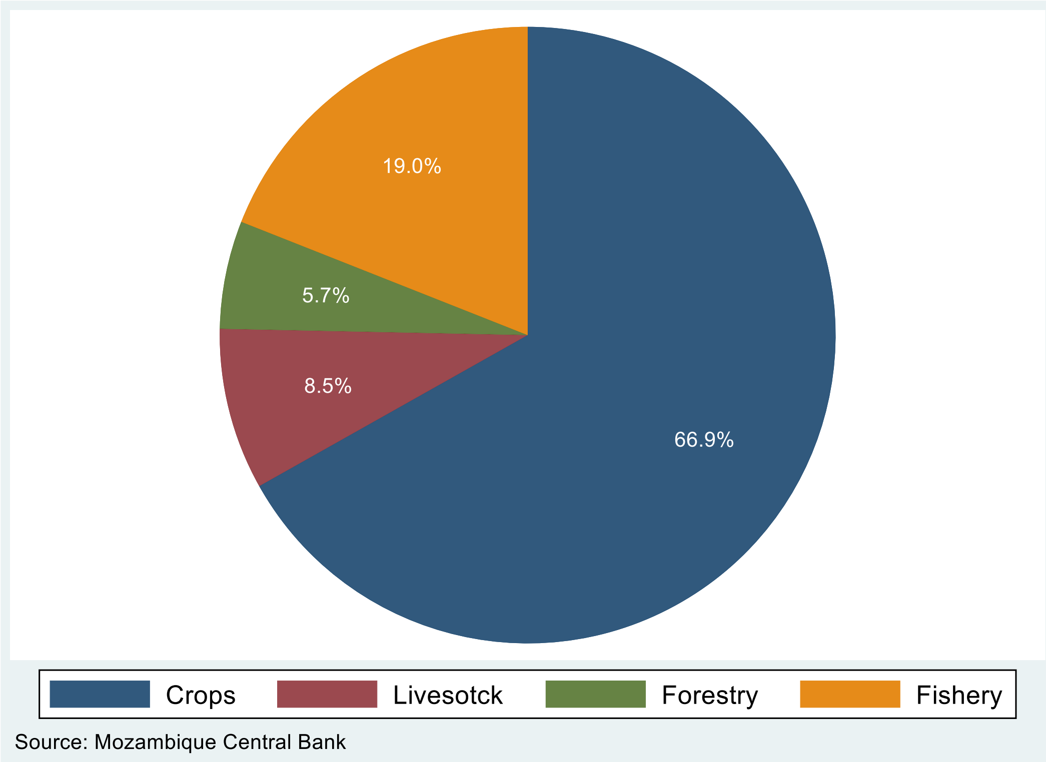

Figure 3. Agricultural sector credit by agricultural subsector between 2013 and 2017

Data from MASA indicates that in 2016, 14 official institutions, including MASA, provided credit for the agriculture sector with interest rates varying from 0% to 60%. During the period 2013-2017, apart from private banks (BCI, BIM, *Banco Terra* and Standard Bank), farmers accessed financing through public and private institutions and non-governmental organizations (NGOs), the Agricultural Development Fund (FDA), District Development Funds (FDD), the Office for the Promotion of Investment (GAPI), the Investment Promotion Centre (CPI), the Institute for Promotion of Small and Medium-scale Enterprises (IPEME), the Africa Management Services Company (AM.SC.O), the *Caixa Comunitária de Microfinanças* (CCOM), Support to Private Sector Initiatives in the Agriculture Sector (ADIPSA), the Enterprise Fund for Portuguese Cooperation (FECOP) and private companies promoting agricultural production for various crops. However data regarding the number of farmers that benefited from these sources of credit are not readily available needing a specific study for estimating with reasonable coverage the rate of farmers' having access to credit.

It should be also noted that the government of Mozambique with partnership from the private sector has been implementing action in order to increase access to financial services. As shown in Table 1 above, the number of financial institutions has been exhibiting a positive trend from 2015 to 2017. This positive trend is also true for the different types of mechanisms for accessing financial services such as ATM, POS, non bank agents and bank agents. It is important to note that bank agents were introduced recently and they increased drastically from zero (0) in 2015 t0 105 in 2016. These efforts have been impacting positively the country financial inclusion index. As shown in Figure 4 below, the financial inclusion index both global[2] and restricted[3] is exhibiting an upward trend indicating an improvement of financial inclusion over time. Comparing the global and restricted financial inclusion index, it is clear that the access to financial services is concentrated in Maputo City because the average of the global financial inclusion index is twofold compared to the restricted index. This fact suggests that the majority of households and mainly the farmers are still excluded for benefiting from financial services, which calls for more investment in financial infrastructures and services in rural areas.

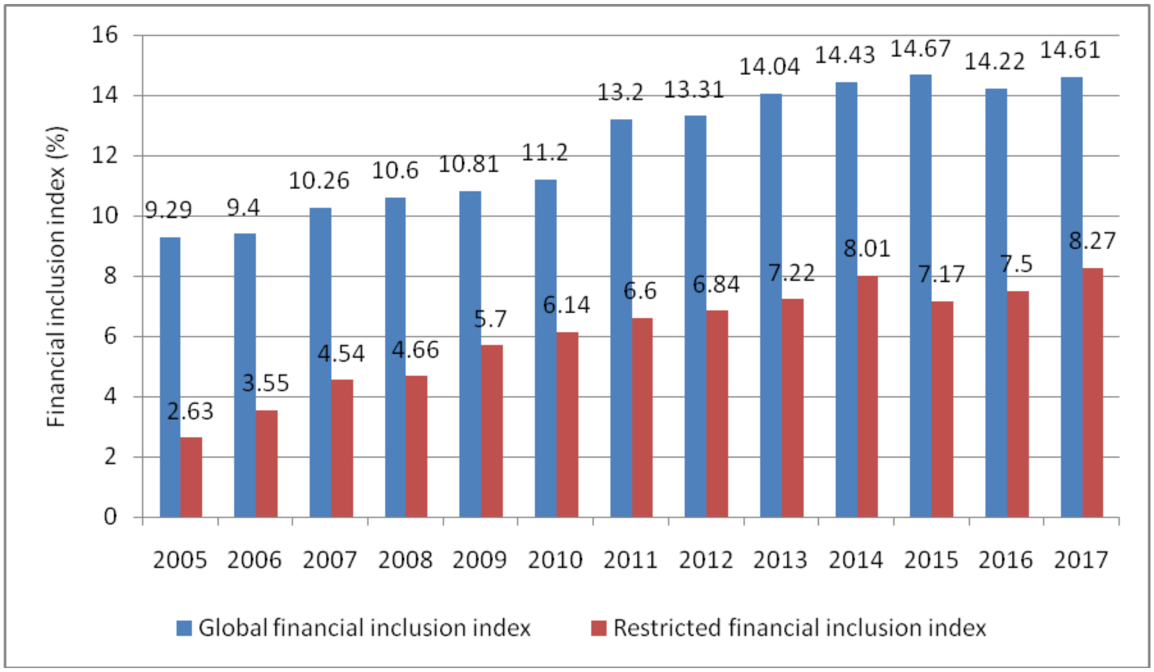

Figure 4. Global and restricted financial inclusion index

Source: Bank of Mozambique (2018)

Similar from the financial inclusion index, the number of bank accounts per 1000 adults also exhibits an upward trend (Figure 5). This is explained by the increase in number of bank agencies. It is important to mention that the government launched a project "one district one bank" aiming to accelerate bancarization in rural areas through an increase in bank coverage throughout the country. In 2017, the project had covered six provinces benefiting 19,283 individuals and 180 companies.

Although the number of bank accounts per 1000 adults is increasing, its distribution between men and women is skewed. As shown in Figure 5, the bank accounts holders are more men than women and during the analyzed period almost 60% of bank accounts belonged to men. This scenario is similar for the proportion of adults holding depositing account and credit accounting (Figures 6 and 7). These results clearly show that the women are mainly excluded for accessing to formal financial services. This is explained by the fact that the majority of beneficiaries of formal financial services

[2] The global financial inclusion index includes both the Maputo city and the 154 districts

[3] The restricted financial inclusion index is calculated for the total number of districts (128 Districts between 2005 and 2015 and 154 Districts in 2016 and excluding the Maputo City

being those adults having formal employment. In Mozambique the majority of labor force with formal employment is men while women are mainly employed in informal sector (mainly informal trade and agriculture).

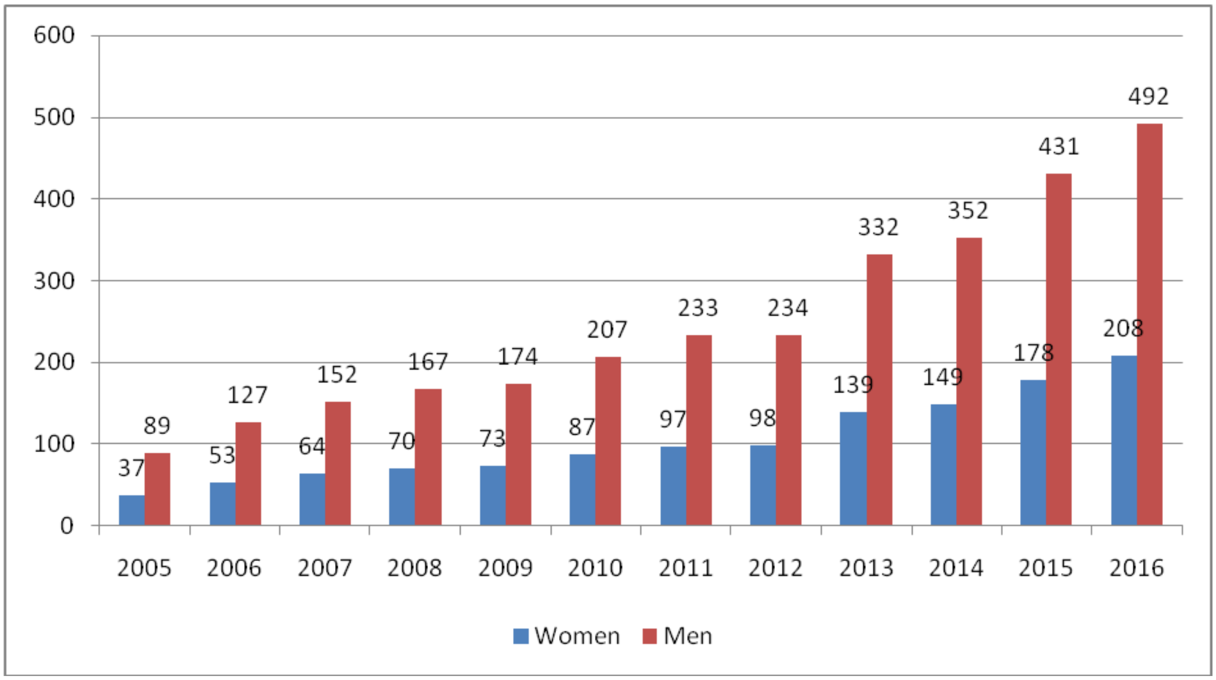

Figure 5. Number of bank accounts per 1000 adults

Source: Bank of Mozambique (2018)

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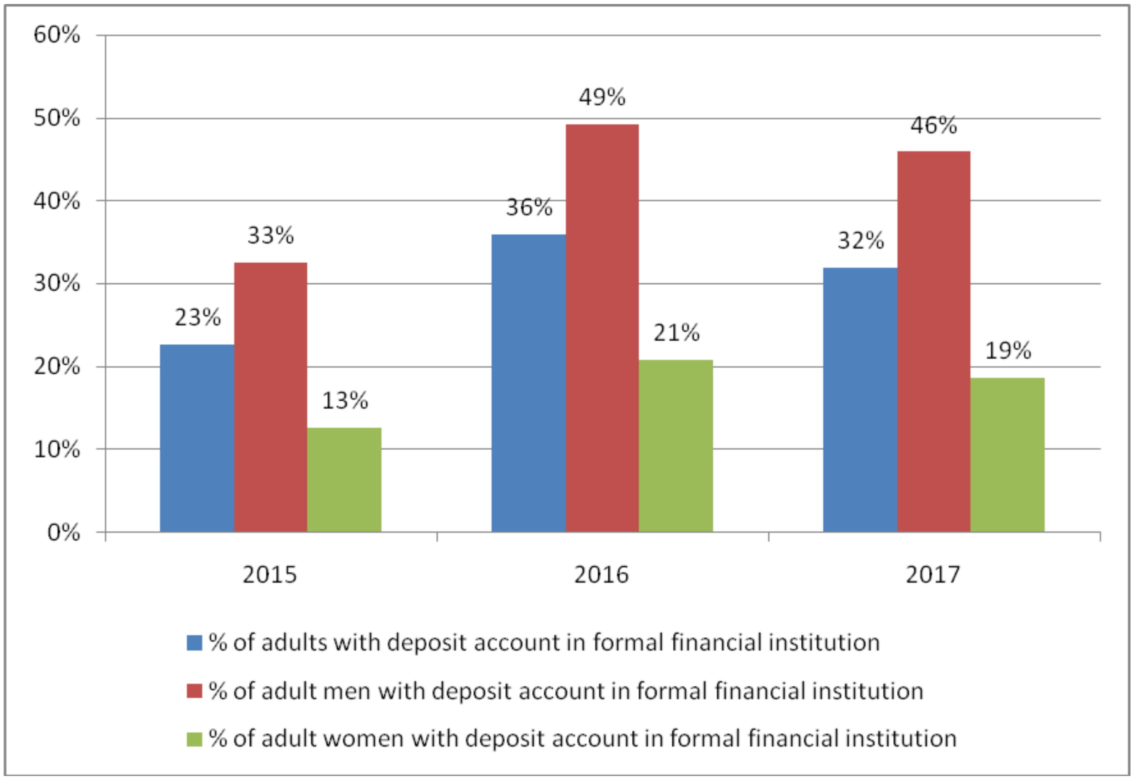

Figure 6. Proportion of adults and by sex with a deposit account in formal financial institution

Source: Bank of Mozambique (2018)

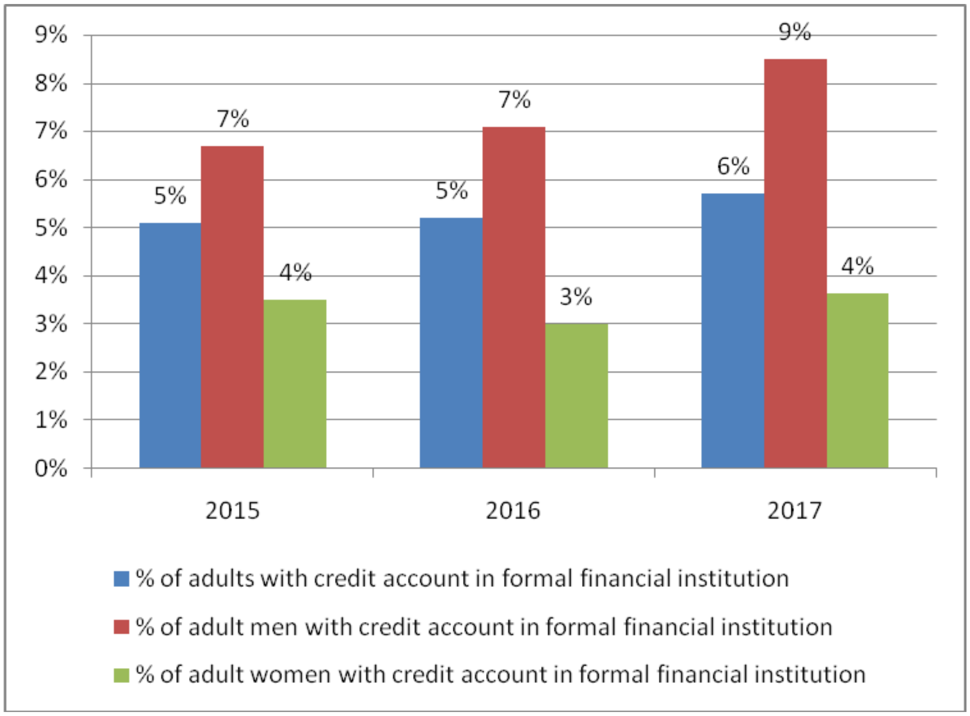

Figure 7. Proportion of adults and by sex with a credit account in formal financial institution

Source: Bank of Mozambique (2018)

Other important means used for accessing financial services are the electronic money accounts and the Accumulative Savings and Credit Associations (ASCAS). As mentioned above, in Mozambique are three **mobile money operators** namely **mKesh, M-PESA and e-Mola**, owned by mobile phone operators TmCel, Vodacom and Movitel, respectively. The use of mobile money has increased drastically from 2012 to 2016 (Figure 8). As shown in Figure 8 below, the percentage of adults having electronic money account increased from 1% in 2012 to 40% in 2016. Similar trend is observed in the percentage of mobile phone subscribers with an account of electronic money (Figure 8). There is no available data regarding the proportion of farmers using different means of accessing to financial services. However, taking into account that the mobile money is used by both urban and rural population and about 80% of the total labor force is employed in agriculture, we can imply that about 32% of the farmers had mobile money accounts in 2016. This estimation should be verified by collecting and analyzing data regarding the number of farmers using mobile account through national surveys.

Different from other means described above of accessing financial services through which women participation is limited, the use of mobile account is increasingly used by women over time (Figure 9). It is important to note that previously and especially in 2015 men were using more mobile accounts than women but the women counterparts have practically matched the use of mobile accounts in 2017 with minimal difference of 9 percentage points (81% for women vs 90% for men). These results suggest that the promotion of mobile means of accessing financial services might promote the inclusion of women in accessing financial services.

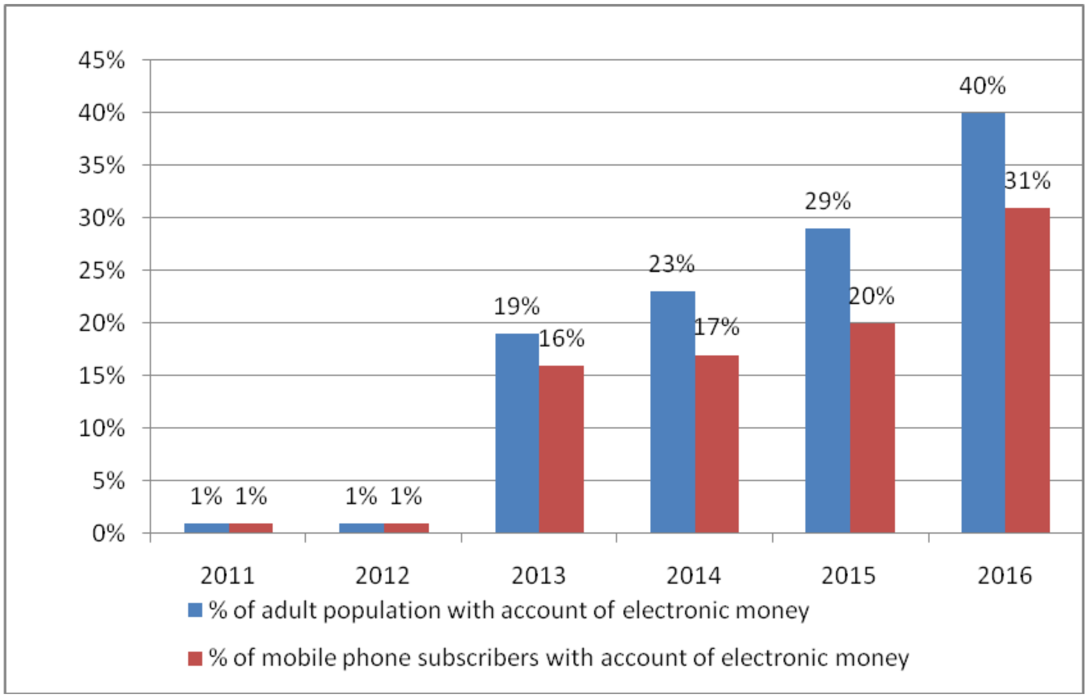

Figure 8. Proportion of adult population using account of electronic money

Source: Bank of Mozambique (2018)

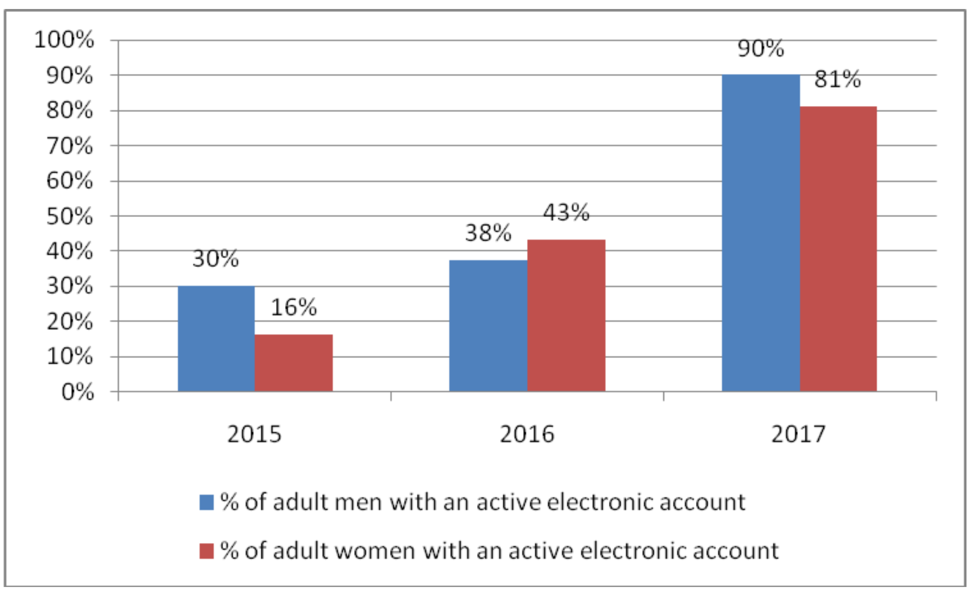

Figure 9. Percentage of adult men and women using account of electronic money

Source: Bank of Mozambique (2018)

Accumulative Savings and Credit Associations (ASCAs) is a key mean for the population and mainly those living in rural areas to have access to financial services. Although not directly regulated by the Bank of Mozambique, the ASCAs are promoted by different organization such as GAPI, CARE, FDC, ADEM, OPHAVELA, AGA KHAN, and WORLD VISION among others. Table 3 below presents the distribution of ASCAs groups and members per province. The country has about 22 thousand ASCAs groups and 440 thousand members. The number of groups and members are concentrated in Nampula and Inhambane with 35% and 31 % of the total number of groups and members for Nampula respectively and 19% and 23% of the total number of groups and members for Inhambane, respectively. The fact of having more ASCAs groups and members in Nampula and Inhambane is due in part to the presence of significant number of organizations promoting ASCAs in these provinces. It is important to note that Inhambane and Nampula have 8 and 7 organizations promoting ASACAs, respectively while the other provinces have less number of organizations except Manica and Gaza that have 8 and 7 organizations, respectively promoting ASCAs.

In terms of districts, the districts located in Nampula, Cabo Delgado, Niassa, Sofala and Maputo provinces are more covered by ASCAS (with 100% of the districts covered), followed by the districts located in the provinces of Tete, Manica e Inhambane with a coverage of 87%, 83%, 79%, respectively. The districts with limited coverage are those located at the provinces of Gaza and Zambezia with coverage rate of 57% e 41%, respectively.

Table 3. Distribution of ASACAS groups and members per province

Provinces	Numbers of groups	Number of members	% Numbers of groups	% Number of members
Maputo	820	22,080	4	5
Gaza	1,783	37,113	8	8
Inhambane	4,281	100,123	19	23
Sofala	1,313	29,400	6	7
Manica	1,333	29,506	6	7
Tete	984	17,813	4	4
Zambezia	1,000	18,104	5	4
Nampula	7,792	136,187	35	31
Niassa	1,855	32,583	8	7
Cabo Delgado	973	17,405	4	4
Total	22,134	440,314	100	100

Source: FSDMoç (2017)

In terms of distribution of ASCAs members by sex, the results show that the majority (67%) of them are women (Figure 9). The dominance of women is significant (81%) in southern region of the country (Maputo, Gaza and Inhambane) while in the northern region this dominance is marginal (59% for women members compared to 41% for men members) (Figure 10). Taking into account that the majority of agricultural producers are women, the promotion and regulation of ASCAs is crucial for improving agricultural producers' access to financial services. Similar from the mobile account, there is a need of estimating accurately the rate of farmers using ASCAs as well as other mechanisms such as outgrowers as mean of accessing to financial services by collecting and analyzing respective data through national surveys.

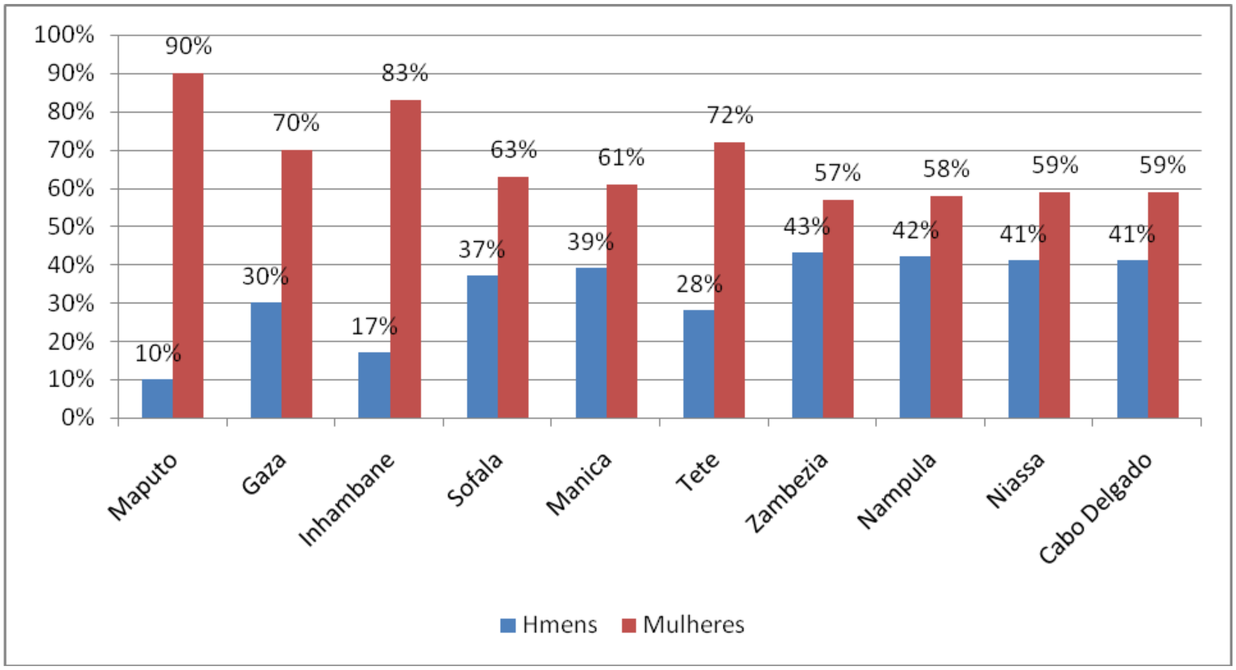

Figure 10. Proportion of men and women using ASACAs as mean for acessing financial services

Source: FSDMoç (2017)

5. Challenges and opportunities of accessing to financial services in the agricultural sector

It is important to recall that agriculture is the largest economic sector in Mozambique contributing with about 23% in GDP and employing about 80% of the labor force. However, the majority (99%) of the population is engaged in smallholder, rain-fed, subsistence agriculture which frequently suffers from climate-induced shocks and with farm size averaging 1.3 ha. The agricultural productivity and production of these smallholders is low mainly due to the low use of improved inputs and small production scale, respectively. This scenario make them to not actively participate in agricultural markets (input and output market) which limits them to have enough assets and production revenues to be used for accessing financial services mainly credit and bank account. The low productivity and production constraint coupled with the fact that the agricultural producers cannot use land as collateral for loans limits agricultural producers having access to formal financial services. Another constraint is the limited physical presence of financial services and products in rural areas coupled with limited awareness and acquaintance with technology, particularly with electronic money transfer.

Therefore, the majority (except small part 1% of producers oriented to market and producing cash crops) relies mainly on informal mechanisms of accessing to financial services namely ASCAs; development projects such as outgrower system; government programs such as the District Development Funds, the Agricultural Development Fund (FDA), Integrated Sustainable Rural Development Program known as *SUSTENTA* among others. As discussed above, the ASCAs are mainly rural mechanisms of accessing to financial products and services and benefit mainly agricultural producers with women benefiting more than men. The District Development Fund implemented by the government covered about 3,290 beneficiaries in 2016 and it has been the preferable mechanism of accessing to credit by producers due to its low interest rate which varies from 3-7%. Similarly, the Agricultural Development Fund implements projects for the development of key value chains such as poultry and horticulture providing credit to farmers at interest rate up to 10%. From the period from February 2017 and July 2018, the SUSTENTA benefited 32.444 individuals being 6.464 from smallholder families and 1.244 individuals from families led by women and also benefited 31 small emergent producers oriented to market. In terms of financing, SUSTENTA provided credit to 1.274 smallholders at 0% interest rate for a total of 37.2 million MZN and 31 small emergent producers oriented to market at 5% interest rate for a total of 111 million MZN.

In terms of policy, the existing policy instruments and especially the Financial Inclusion Strategy is silent in promoting access to financial services to agricultural producers although agriculture is key economic sector in the country. The Financial Inclusion Strategy (2016-2022) envisioned the creation of the National Committee for Financial Inclusion, which is not yet effectively working. The evaluation of the Financial Inclusion Strategy calls for designing and implementing financial products and services tailored to the needs of the population and mainly for vulnerable populations and population residing in rural areas such as women and young people with poor coverage of formal financial services and especially the promotion of ASCAs. However, the existing legal frameworks do not regulate the functioning of the actual informal mechanisms of accessing to financial services and mainly for agricultural producers such as ASCAs and outgrowers. As a result, the government and especially the regulators of financial services and products are called to design mechanisms for promoting and regulating the actual informal mechanisms for accessing to financial services as they are crucial in covering the majority of rural population and mainly farmers as discussed above.

6. Conclusion and recommendations

The results of this qualitative analyze show that Mozambique has policy instruments governing the agricultural sector. However it needs to be updated to cover the dynamic of the agricultural sector and especially the emerging issues such as climate change. The current ongoing process of drafting the new generation of PEDSA and PNISA might help in adjusting the agricultural policy instruments to respond to the current issues.

Regarding the policy guiding and promoting farmers' access to financial products and services, it can be said that they exist. The key policy instruments related to farmers' access to financial products and services are the Economy Bancarization Strategy; the Rural Financing Strategy; the Strategy for the Development of Financial Sector; and the National Strategy for Financial Inclusion. These policies are limited as they do not present clearly the actions to be taken for improving farmers' access to financial products and services. It is important to note that these policies recognize the need of improving access to financial products and services mainly in rural areas and the use of informal mechanisms such as ASCAs. However, they do not propose key action to expand sustainably the use of ASCAs and other means of increasing farmers' access to financial products and services.

It should also be noted that the study found that the structure of financial organizations in Mozambique include both formal and informal institutions and by far, the informal institutions (ASCAs and outgrowers) are mainly used by farmers as mechanisms for having access to financial products and services. The access to formal services is estimated to be 32.9% implying that 26.32% of farmers had access to physical or electronic access to formal financial services in 2018. However, the formal mechanisms are accessed mainly by men as this group is more engaged in formal jobs comparing to women counterparts. In fact, although the number of bank accounts per 1,000 adults has been increasing over time, its distribution between men and women is skewed. The bank accounts holders are more men than women and during the analyzed period almost 60% of bank accounts belonged to men.

The percentage of adults having electronic money account through mobile phone increased from 1% in 2012 to 40% in 2016. Considering that 80% of labor force is engaged in agriculture, we can imply that about 32% of the farmers had mobile money accounts in 2016. This estimation should be verified by collecting and analyzing data regarding the number of farmers using mobile account through national surveys. The use of electronic money account through mobile phone is increasing especially for women. The study found that in 2015 men were using more mobile account than women but the women counterparts have practically matched the use of mobile accounts in 2017 with minimal difference of 9 percentage points (81% for women vs 90% for men). These results suggest that the promotion of mobile accounts might promote the inclusion of women in accessing financial services.

Another mechanism benefiting farmers and especially women (67%) is the ASCAs. The key feature of ASCAs is its geographical coverage as it is present in all districts with coverage rate above 50% in all provinces except Zambezia with coverage rate of 41%. The other mechanisms such as government programs (SUSTENTA and FDA) and outgrower system are also crucial for the increasing farmers' access to financial services. However, the results about the number of beneficiaries of those systems is disperse, which make it difficult to access the real level of farmers' access to financial services and therefore similar from the mobile account, there is a need of estimating accurately the rate of farmers using ASCAs as well as other mechanisms such as outgrowers as mean of accessing to financial services by collecting and analyzing respective data through national surveys. Additionally, the accurate number of farmers benefiting from financial services provided by the different providers can be accessed by specific study involving as target study population these organizations.

Combining the existing data analyzed in this report (beneficiaries of formal financial services and holders of electronic money account through mobile phone), it can be concluded that farmers' access to financial services is around 30%.

Similar from past studies, the limiting factors of accessing financial services for agricultural producers include: (i) The low agricultural productivity and production coupled with the fact that the agricultural producers cannot use land as collateral for loans; (ii) limited coverage of formal financial institutions and services; (iii) high interest rates coupled with lack of agricultural insurance; (v) farmers' illiteracy regarding financial markets and (iv) limited government institutionalization of informal mechanisms for promoting access to financial services coupled with limited regulation of these informal mechanisms which are clearly crucial for expanding farmers' access to financial services.

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