Ex post evaluation – Mozambique

Sector: Sustainable economic development, CRS code 24030
Project: Access to Finance Challenge Fund II, BMZ No. 2007 65 198*
Implementing agency: Central Bank of Mozambique

Ex post evaluation report: 2018

All figures in EUR million	Project A (Planned)	Project A (Actual)
Investment costs (total)	1.00	0.87
Counterpart contribution	0.00	0.00
Financing	1.00	0.87
of which BMZ budget funds	1.00	0.87

*) Random sample 2015

Summary: The Access to Finance Challenge Fund (AFCF) was a facility based on the principle of co-financing that provided grants to microfinance institutions or other actors in the sector implementing innovative approaches to expand and deepen the Mozambican financial system. The AFCF was intended to professionalise the Mozambican microfinance sector and improve access to financial services for the population and MSMEs, particularly in rural regions. The project was based on three components, which included grants that could be applied for: 1) support during fulfilment of international accounting regulations (IFRS), 2) creating access to the SIMO national payment system, and 3) the promotion of innovative services and products focusing on the low-income population. The FC-financed AFCF was originally part of the joint "Financial Sector Technical Assistance Programme" (FSTAP) together with the World Bank and the African Development Bank, but was continued after the FSTAP ended and increased with the present project (AFCF II).

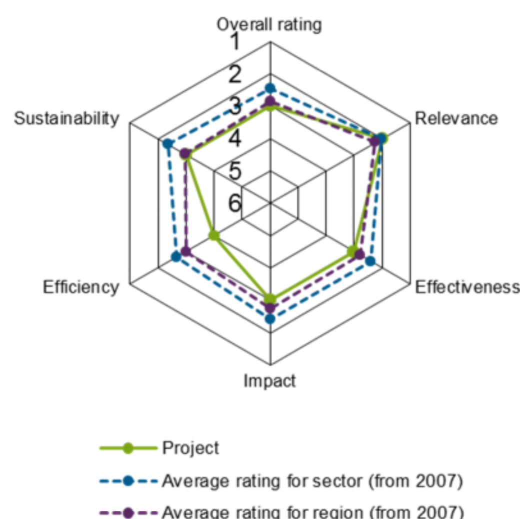
Development objectives: The objective of the general sectoral programme was to provide Mozambican MSMEs with needs-based financial products on a sustainable basis. The overarching objective was to contribute to alleviating poverty, to expand and deepen the Mozambican financial sector, and to create structural prerequisites for its sustainable development.

Target group: The target group is MSMEs in urban and rural areas as well as economically active, poorer households. The target group also includes the owners and employees of MSMEs and their relatives.

Overall rating: 3

Rationale: The participating financial institutions did not create innovative products or services as intended in the initial project concept. Instead, they created the prerequisites for the further expansion of existing or future products, which seems just as valid for the objectives, however. In addition, the population's access to financial services has increased significantly since the project appraisal, albeit at a low level. The project was able to contribute to this, even if to a very small degree. This is primarily due to the model or demo nature of the subsidised individual measures, even if the respective degree of innovation was comparatively low.

Highlights: The economic crisis that Mozambique has faced since 2016 is counteracting the poverty-reducing effects of the project. Nevertheless, from today's perspective, it is plausible that the positive structural impacts of the project in the financial sector will also continue to serve as a basis for further structural improvements in the financial sector after the crisis is over.



Rating according to DAC criteria

Overall rating: 3

Ratings:

Relevance	2
Effectiveness	3
Efficiency	4
Impact	3
Sustainability	3

General conditions and classification of the project

Despite stable economic growth[1] in the past 15 years, poverty reduction in Mozambique has been slow. While the percentage of the global population living in extreme poverty (USD 1.90 per day) fell from 20.8% to 10.7%, the success in alleviating poverty in Mozambique was much more modest, though reliable figures are only available for individual periods. Between 2003 and 2009, the percentage of extremely poor people in Mozambique's population could only be reduced from 56.4% to 52.1%.

Not least due to the uneven distribution of economic growth (averaging around 8% p.a. between 1993 and 2014), the situation of the rural population – already heavily affected by poverty – hardly improved (62.0% living below the national poverty line in 2009, 64.7% in 2003). At the same time, the figures for the urban population improved from 39.0% to 29.3%.

The inadequately developed financial sector is viewed as a major constraint for the country's future development. The Mozambican private sector in particular only has limited access to loans (in rural areas, for example, there is virtually no access)[2]. Before the onset of the current economic crisis (since mid-2016, see below) Mozambique was ranked 157 of 181 countries worldwide based on the availability of credit[3]. Loans were granted from 18 banks, 11 "microbanks", 9 credit unions, 2 "electronic financial institutions", 12 savings and loan organisations, and 330 microfinance providers.

The reasons for the difficult access to loans include unfavourable sectoral and legal framework conditions. A lack of institutions providing credit information (no private credit agency; according to estimates, the national registry only includes around 5% of all loan liabilities) and insufficient legal options for providing collateral also contribute to the difficulties accessing credit. The security effect of real estate collateral is thus considered weak, while there is no legal foundation for moveable goods as collateral at all. What is more, asserting statutory claims in Mozambique has become even more difficult than in the other Sub-Saharan African states (exercising a simple contractual claim takes 950 days on average, 50% longer than the average of the other states in Sub-Saharan Africa[4]).

Progress regarding access to financial services can be seen nevertheless. At the time of the project appraisal, only 2% of the Mozambican population had access to financial services; at the end of 2015, 20% of the population had their own accounts. However, there is strong divergence here between the urban (40%) and rural populations (10% have their own accounts). Over a third of all bank branches are in the capital city of Maputo, while nearly 70% of the population live in rural areas[5]. For corporate loans, access to credit varies significantly according to the size of the company. Mid-sized companies virtually have access to loans without exception, while the access for small businesses and microbusinesses (54% and 27% respectively) is much more difficult. As a result, agricultural companies, which are normally in the small business or microenterprise categories and are located in rural regions, are considerably un-

[1] Accelerating Poverty Reduction in Mozambique: Challenges and Opportunities, World Bank October 2016.

[2] Doing Business Report 2006, World Bank.

[3] Doing Business Report 2017, World Bank.

[4] Mozambique Economic Update: A two speed economy, World Bank July 2017.

[5] National Financial Inclusion Strategy 2016-2022, Bank of Mozambique

derrepresented as borrowers. While agriculture is the main source of income for around 80% of rural households (which corresponds to over half of the country's population), only around 3% of the volume of lending is in this sector[6].

Despite many initiatives and incentives[7] for rural financial system development, companies and private individuals in rural regions only have limited access to financial services. Since mid-2016, impacts from the financial crisis in Mozambique have aggravated the situation.

The country's economic situation is characterised by rapidly declining growth (2010–2014 an average of +10% p.a., 2015 and 2016 an average of -20% p.a.[8]), high inflation (40% inflation rate for food) and the continued weakening of the national currency (exchange rate to USD halved since 2012). Due to outstanding debts, the country is practically excluded from the international capital market, so foreign direct investments (including the energy and construction sectors), which contributed to economic growth in the past, have failed to materialise. Support from the International Monetary Fund (IMF) and general budget support from 14 donors was suspended in 2016 after hidden public liabilities amounting to USD 2 billion became known. The country's situation is evaluated as fragile by the Economist Intelligence Unit (EIU) and the World Bank.

As a result of the crisis, the average volume of lending of all banks, which had increased by an average of 20% annually by mid-2014 (adjusted for inflation), has since fallen (-15% yoy as of April 2017), while commercial bank interest rates are above 20% p.a.

The project is based on participation in the "Financial Sector Technical Assistance Project" (FSTAP) as the fourth component of an FC financial sector programme with a total volume of EUR 7.4 million. In this context, FC (alone) contributed EUR 1 million to finance the Access to Finance Challenge Fund as part of the FSTAP, which was executed together with the World Bank and the African Development Bank. Together with the project under evaluation, another EUR 1 million was added to the fund. This was implemented by the Mozambican central bank's supervisory authority (Departamento de Supervisao Bancária) with support from an international consultant.

Relevance

The inadequately developed financial sector was identified as a barrier to development for rural areas during the project appraisal. However, the deficits have many different causes, and only certain aspects can be addressed, especially given the low financing volume. In particular, significant improvements to supplying credit for private individuals and companies only seem possible if far-reaching changes to legal framework conditions (collateral) and improvements to legal security (faster enforcement of legal claims) create the prerequisites for this. In this respect, the project can only act as a small building block for contributing to sectoral improvements and, in addition can only have an impact in line with overarching measures. As the project to be evaluated is embedded in a more comprehensive FC[9] and TC commitment as well as in a series of other donor activities in Mozambique's financial sector, the approach followed is deemed relevant.

Development cooperation relies on downscaling in Mozambique's financial sector (tapping into new customer groups through commercial banks, micro, small and medium-sized enterprises in particular, and linkage approaches for connecting the formal and informal sector). By participating in AFCF, the project's results chain envisages following three distinct approaches to deepen and expand the financial sector by granting participating partner financial institutions (PFIs, for the most part commercial banks focusing on microfinance) proportional grants for relevant projects. However, it was not properly considered during the project design that smaller PFIs in particular would require support during the application process. The project categories eligible for grants include:

(i) support for FIs in fulfilling international accounting standards (IFRS)

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[6] National Financial Inclusion Strategy 2016-2022, Bank of Mozambique

[7] For example, a reduced reserve ratio applies for microfinance institutions in rural areas.

[8] GDP in current USD, source: World Bank

[9] e.g. Financial Sector Deepening Fund in the context of FC Financial Sector Promotion Programme II, BMZ No. 2014 67 471

(ii) creating access to the SIMO (Sociedade Interbancária de Moçambique) national payment system and

(iii) promoting innovative services and products focusing on the low-income population (particularly in rural areas with limited or no service).

Based on the deficits outlined in the previous section, from today's perspective too all three approaches are generally suitable for achieving the desired professionalisation, deepening and expanding the financial sector, and thus contributing to sustainable development of the financial sector. This applies in particular given that most microfinance institutions lack the necessary funds to do this. Furthermore, the improved access to financial services for micro, small and medium-sized enterprises is intended to generate additional income and create jobs. The project is thus also relevant for alleviating poverty, especially for the rural population.

Relevance rating: 2

Effectiveness

Against the background of the current crisis, the short-term effectiveness of the measures is inevitably limited as the negative developments in the financial sector counteract the positive project impacts. However, as the impact mechanisms are designed for long-term effects, we can assume that if Mozambique's economy recovers in the medium term, the intended impacts can be achieved.

Overall, the project's funds were granted in three application rounds to a total of seven PFIs starting in May 2012. Subsequent decreases in the amounts and two withdrawn applications led to only EUR 0.8 million being disbursed out of the available funds (EUR 1 million). Component (iii)/promotion of innovative services and products played the main role here. Ultimately only 2% and 7% of the funds were used for the (i)/IFRS and (ii)/SIMO components respectively.

2 PFIs that applied for and received funds for the IFRS components used them to purchase software and services. Only one PFI applied for funds for the SIMO component. The remaining funds were granted to three PFIs that applied for component 3.

From today's perspective, the indicators defined during the project appraisal for the project target achievement are not suitable for estimating the degree to which the target was achieved. The relationship between indicator 1 (percentage of MFIs with IFRS in the sector's volume of lending) and the project measures ultimately executed is negligible as the IFRS component was hardly used. Even if this component had been used intensively, due to the low project volume it would not be very plausible to find a definitive connection between the sector target defined in the indicator and the project measures.

Indicator 2 (number of newly developed financial products after three years) pertains to the project components which the majority of the grants applied to. However, the project measures did not directly promote any newly developed products. The concept behind these types of product innovation would also not have been possible due to the short application deadlines. Rather, the financed measures were used to lay the foundations for the further expansion of existing or future products (see below), which seems to be just as valid as an objective as the new product developments originally suggested.

Due to the diversity of the project measures it is also barely possible to define the indicators in a way that makes them reasonably suitable as target figures for all three project categories. Overarching target figures (such as access to financial services or credit volumes in rural areas) also do not appear reasonable because the scope of the financed measures is too small to reliably attribute developments of such figures to the project measures.

As over 90% of the project funds were used for the third programme component (innovative products and services), the evaluation of the project is limited to this component. From today's perspective, however, it is clear that no specific products or services were developed with the grants. Rather, foundations were laid and technical prerequisites created to make existing products accessible to a wider customer base or intensify use of the products. To do this it was necessary to invest in security-related acquisitions for fraud prevention (fingerprint sensors), upgrade IT systems for geographically broader use (procurement of PDAs and servers), and make use of support services (financial education of employees and customers, system configuration).

When assessing the feedback received from PFIs during the evaluation, a certain selection bias was observed as the only PFIs surveyed were those that ultimately also wanted to or could benefit from the promotion. As over half of the submitted project proposals were rejected, it seems evident that many of the institutions applying lacked the competence to develop suitable project proposals. This applied to smaller institutions in particular. Their need for professionalisation is particularly high, and they, in particular, should have been the initial focus of the project. It might have been wise to use a consultant to support smaller PFIs during the application phase. Furthermore, some of the PFIs were not reached because a workshop organised for interested PFIs was only offered in the capital of Maputo.

According to statements from the surveyed PFIs, the financed measures increased the scope and intensity of their activities, whilst boosting efficiency and reducing fraud risks (both from third parties and also from their own staff). There is no reliable data available for a quantitative assessment of these effects.

There is only one case in which indirect conclusions at least can be drawn about the quantitative impacts due to the type of measures. The measure co-financed with EUR 0.35 million included training 2,000 "mobile banking agents". The objective was to connect 250,000 people in the poorer segments of the population in rural areas to the Mozambican finance sector using mobile payment methods. In the final analysis, this measure helped the supported provider expand its customer base by around 175,000 people.

Even though the available data is not sufficient for a full evaluation of the target achievement for the entire project, the effectiveness is assessed as satisfactory based on these successful individual measures.

Effectiveness rating: 3

Efficiency

The project was implemented within 3.5 years. Originally, the funds were to be awarded in one single round of applications. However, three rounds of applications were ultimately necessary to grant 90% of the available grant funding. The last disbursement of funds took place at the end of 2014 (as opposed to original plan of end-2012). Further delays mainly arose during the evaluation of the project proposals by the responsible committee and during contract negotiations between Banco de Moçambique and the supported PFIs.

The share of consulting costs was around 15%. As the consultant's tasks focused on managing and disbursing the funds and the preliminary evaluation of the grant applications, this seems relatively high. However, the unfavourable ratio between consulting costs and measure costs can also be attributed to the very low total project volume of EUR 1.0 million.

The audit of the use of funds conducted by the appointed auditor confirmed that the funds were used properly.

Of the 18 grant applications from PFIs in total, only seven ultimately led to the conclusion of a contract. According to information from Banco de Moçambique this is due to flawed applications, incomplete data and project content that was not eligible for promotion. This may also be due to the short application period that was criticised by the supported PFIs. Overall, three application rounds were carried out and the PFIs had two months to apply in each case.

The fact the grants only subsidised a portion of the promoted measures was intended to help ensure the efficiency of the project. Initially, the funding rate was set at 50-60% of the project costs, while the remaining costs had to be borne by the applying PFI itself. However, this funding rate was increased to up to 80% by the third application round. The rather low financing amount for the first two application rounds (in total around 41% of the project volume) indicates that the promotion conditions should be structured more appealingly with the objective of generating higher applications. This highlights certain trade-offs in efficiency for these types of project approach. If the grant portion is generally set too low, there is a risk that the outflow of funds will be too slow because the promotional funds lack appeal. This corresponds with losses in efficiency regarding consulting costs and also at the level of the executing agency and the donor. If the grant percentage is set rather high, the project implementation tends to be shorter. That said, the PFI's counterpart contribution decreases, so the available grants are able to fund fewer measures on the one hand, while less efficient measures tend to be proposed by the PFIs on the other, but these

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measures still pay off for the PFI due to the high grant portion. An additional factor that comes into play with grant funding is unavoidable windfall profits due to projects that would also have been implemented without the grants, as confirmed by the PFIs to some extent.

The allocation efficiency is primarily determined based on the largest promoted project ("mobile banking agents" using mobile payment systems) due to the overall difficulty in measuring project impacts. The relevant measure was subsidised with around EUR 0.35 million, it expanded the customer base of the promoted provider by around 175,000 people, and a significant amount of these people probably received access to financial services for the first time. This results in an amount of around EUR 2 per person, which indicates a comparatively efficient approach in this case.

Nevertheless, the efficiency of the project is no longer assessed as satisfactory due to the aforementioned problems during implementation and the significant windfall profits suspected as a result of the extensive subsidies.

Efficiency rating: 4

Impact

During the appraisal of the original project it was assumed that reaching the project objectives would also result in achieving the overarching development goals – however, only under the assumption there would be no macroeconomic decline. Yet this is exactly what occurred at the onset of the economic crisis in Mozambique in mid-2016, so part of the impacts at the overarching level were counteracted by opposing effects stemming from the crisis, especially regarding the intended contribution to alleviating poverty.

Nonetheless, one noteworthy factor is the progress made regarding access to financial services at the national level. The positive development regarding access to financial services (2% of the population during the 2006 project appraisal compared with 20% of the population at the end of 2015) should be viewed as major structural progress, and will also probably still have an impact at a higher level when the economic situation in Mozambique recovers again. However, in view of the low amount of project funds used, it would be presumptuous to claim that the evaluated project was completely responsible for this structural improvement or to claim that it was responsible to a decisive extent.

At the institutional level, one loan co-operative reports that it completed its transformation into a "microbank" due to payments in kind subsidised by the AFCF. Two other institutions reported that they were able to implement better accounting systems and connect to the national payment system thanks to the subsidised payments in kind. We can thus state that the AFCF contributed to creating an inclusive finance system, even if the effect was limited.

Despite the progress mentioned, serious deficits still prevail regarding access to financial services and in credit availability for micro, small and medium-sized businesses, while urban/rural discrepancies still appear to be problematic. Also, the intended contribution to alleviating poverty, which was supposed to result from improved access to loan funds and other financial services, could consequently only be achieved in part, and it is also overshadowed by the current economic crisis in Mozambique. Due to the small project volume, no broad structural changes were expected from the evaluated project. Instead, the best case scenario included model initiatives that would provide impetus for the further development of the financial sector in rural areas. From today's perspective, the project fulfilled these expectations.

Impact rating: 3

Sustainability

At the time of the evaluation, all promoted PFIs were still active in the market. Since the financed measures created the basis and technical prerequisites for the further expansion of financial services, it can be assumed that the improved position of the PFIs will remain intact, at least as long as the promoted institutions survive on the market. This would require a stabilisation of the economic conditions in Mozambique. At the same time, this is also a prerequisite for the promoted measures to result in a broader expansion of the financial sector and exert a positive impact on the country's poverty situation. In particular, the success of the mobile payment systems from the "mobile banking agents" measure indicates that similar approaches can also be copied by other market participants in the future, thus realising the model

or demo value of the measure. The project approach itself is being continued in part in the Financial Sector Deepening Fund, which is a multi-donor fund being prepared with the participation of DFID, SIDA (Sweden) and FC (component 2 of the FC Financial Sector Promotion Programme II, BMZ No. 2014 67 471) at the time of the evaluation. However, the main risk to the sustainability of the project impacts remains the country's future macroeconomic development.

Sustainability rating: 3

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Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally “successful” only if the achievement of the project objective (“effectiveness”), the impact on the overall objective (“overarching developmental impact”) and the sustainability are rated at least “satisfactory” (level 3).