

History:

During the pre-colonial era Mozambique was dominated by various Bantu tribes that overtook original inhabitants around 300 A.D. and settled throughout the region. The existence of the Zambezi and Limpopo rivers provided natural boundaries enabling distinct kingdoms to develop north of the Zambezi River, between the two rivers, and south of the Limpopo River. Arab traders regularly visited the coast and engaged with local inhabitants thereby creating a strong impact on local culture. (InfoPlease, 2009)

Vasco da Gama landed on the Mozambique coast in 1498 with four ships and, after numerous attacks and battles with local inhabitants, established Portuguese control over the region and colonized the region on behalf of the Portuguese Empire. However, it was not until 1752 that Portugal officially announced Mozambique as its colony and began the slave trade. By the 1800s, slaves constituted a major part of international trade.

Portugal ruled the colony for 470 years until guerilla warfare, which began in 1963, grew so fierce that by 1974 Portugal signed a cease fire agreement and Mozambique became independent on June 25 1975. Samora Moises Machel, who had been the leader of the National Front for the Liberation of Mozambique, became president and then ruled the country until his death in 1986. However, the country became embroiled in a civil war between government forces and guerilla forces of the Mozambique National Resistance, which was supported by the apartheid government of South Africa. President Machel was succeeded by his foreign minister Joaquim Chissano who won multiparty elections in 1994. Chissanno led Mozambique to become the first non former British colony to become a member of the British Commonwealth and implemented economic reforms that was highly successful in attracting foreign investment and accelerating growth. (HistoryWorld, 2009)

In recent years Mozambique experienced strong economic growth yet has been plagued by natural disasters, and especially floods, which have repeatedly destroyed much of the country's infrastructure. Despite strong economic growth since independence, Mozambique remains one of the world's poorest countries with approximately 50% of the population living in poverty. (World Bank, 2009)

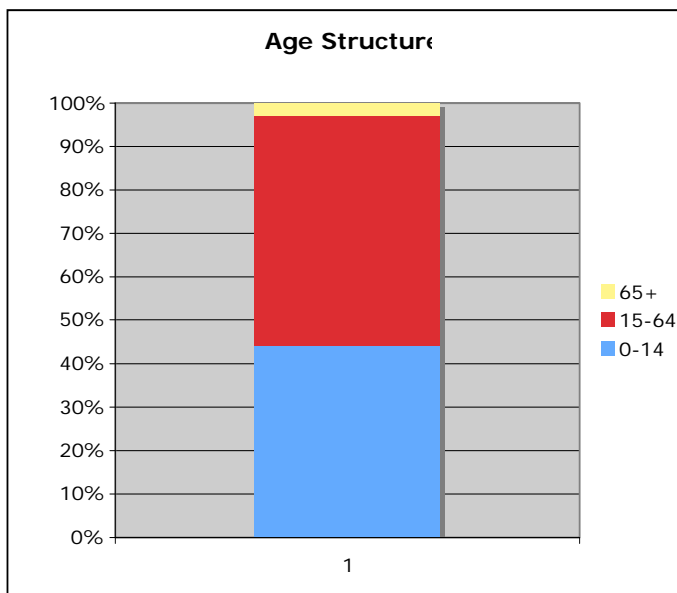
People

Population dynamics

Mozambique has a population of 21.7 million people with a population growth rate of 1.79%. The population is distributed mainly between five major tribes including the Makhuwa, Tsonga, Lomwe, and Sena amongst others. (CIA Factbook, 2009)

Health and Welfare

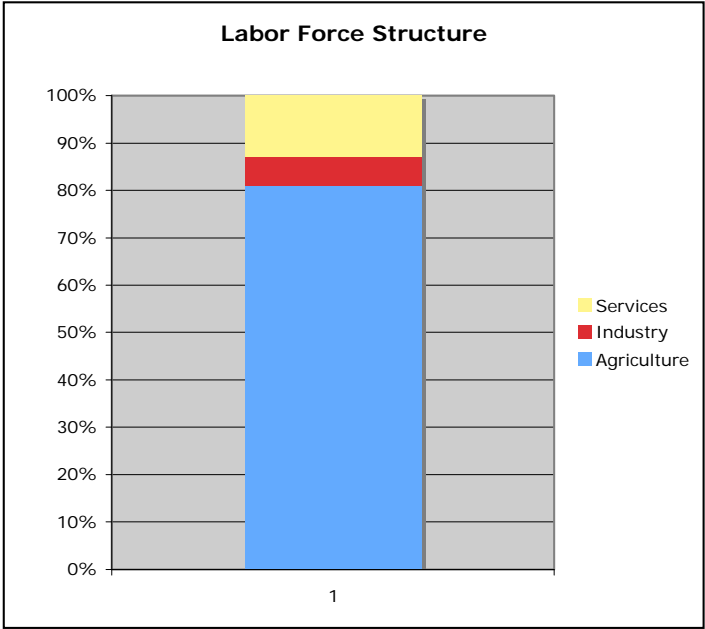
The impact of the AIDS epidemic is significant with a 12.5% prevalence rate among adults. The AIDS epidemic and the prevalence of other infectious diseases have a severe impact on human welfare. Mozambique has a high death rate of 20.29/1000, low life expectancy at birth of 41.8, and a high infant mortality rate of 105.8 deaths per 1000. The country has the following age structure.



Mozambique also has a surprisingly low literacy rate at approximately 47% of the population as the percent of the population over the age of 15 that can read and write. (CIA Factbook, 2009)

Economy

Mozambique has a GDP \$18.95 billion¹ growing at a rate of 6.5%. Mozambique’s economy continues to rely on subsistence farming and mineral exports. However, significant investment is still needed to fully develop the mining sector and diversify the economy beyond subsistence agriculture. Mozambique has a total work force of 10.04 million people and high unemployment rate of 21% (CIA Factbook). Labor force distribution is as follows:

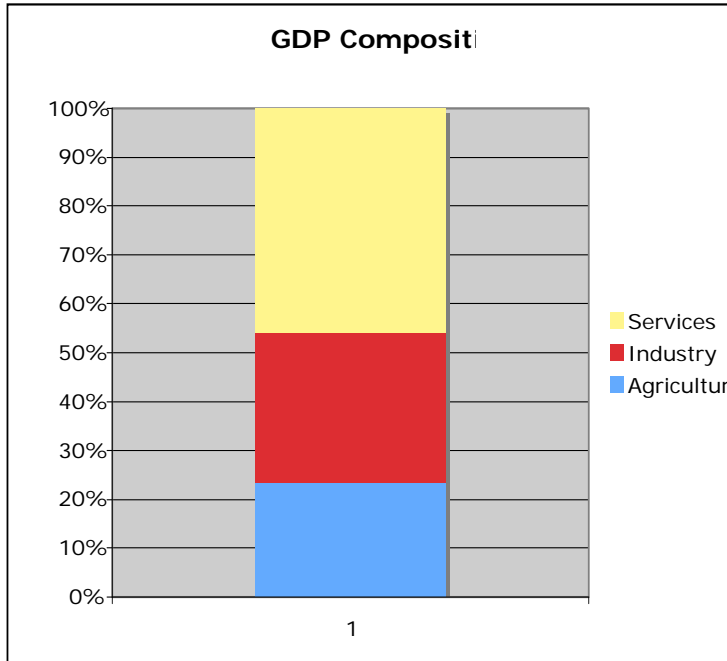


(CIA Factbook, 2009)

Macro-economic Situation:

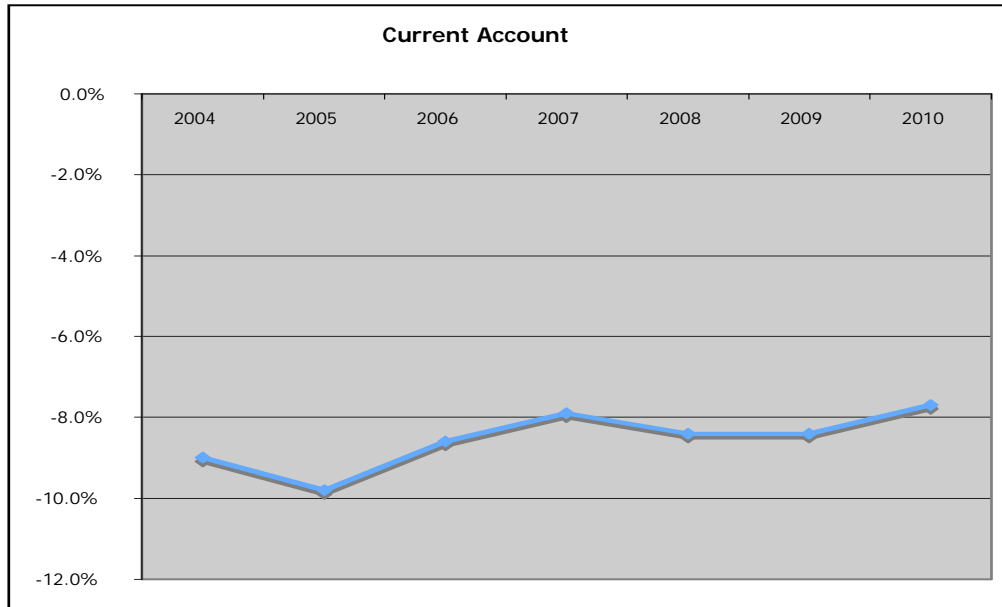
The Government of Mozambique remains heavily dependent foreign assistance to cover most of its budget and the majority of the population lives below the poverty line. The country’s large debt burden has recently been reduced to a manageable level through the IMF’s Highly Indebted Poor Countries (HIPC) initiative. In 2008 the government also entered into a compact with the Millennium Challenge Corporation, a US Government sponsored aid program that will assist the government in building needed infrastructure and developing policy reforms. Composition of GDP is as follows:

¹ \$9.778 billion (official exchange rate) and \$18.95 billion (purchasing power parity).



(CIA Factbook, 2009)

In 2008 the government captured revenues totaling \$2.786 billion with expenditures of \$3.108 billion representing deficit spending of approximately 5.3% of GDP. The inflation rate stands at 11.2% and the government maintains public debt worth 21.4% of GDP (CIA Factbook, 2009). The government has a total external debt of \$38.2 billion and reserves of foreign exchange, excluding gold, worth \$1.66 billion. Main trading partners include Italy, Belgium, Spain, South Africa, and the United Kingdom. The economy is dependent on imports though the government has been able to reduce the current account deficit from an alarming rate of +25% during the late 1980s to a still high level of 16.5% during the earlier part of this decade (World Bank, 2008). The government has further improved the current account deficit to approximately 8.5%, a level that is projected to stay relatively stable over the next several years.



(BMI, 2009)

Recent economic growth has been fuelled by large foreign direct investment projects focused on export-oriented projects including mining, electricity, and transport. These gains have helped Mozambique in recent years yet have also made the country particularly vulnerable to the current global financial crisis especially due to the lack of domestic consumption or significant employment opportunities (Africa Monitor, 2009).

The Central Bank:

The objective of the Central Bank of Mozambique is to guarantee the value of the national currency. More specifically, the Central Bank performs a variety of functions as the “advisor and consultant of the government in monetary and financial issues, manager of the monetary policy, banker of the State and of the Institutions of Credit, manager of foreign reserves, supervisor of the financial sector, exchange authority, representative of the Government in international monetary relationships.” (Central Bank, 2009) The Central Bank has its headquarters in the capital, Maputo, and two regional branches in Beira and Nampula cities.

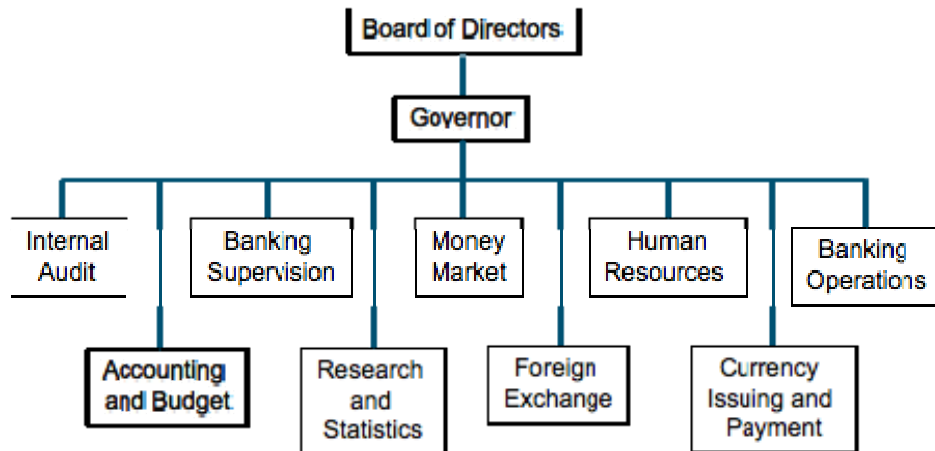
The Central Bank also coordinates and communicates its activities with other Central Banks in the Southern Africa Development Community (SADC) through the Committee of Central Bank Governors in SADC.

Governance

According to the constitution, the President of the Mozambique appoints the Governor of the Central Bank for a period of five years. The Board of Directors of the Central Bank consists of seven members including the Governor and Deputy Governor, who are both appointed by the President, and five General Managers, who are appointed by the Prime Minister. The five General Managers perform the following functions:

- General Manager for Markets, Foreign Exchange, and Property
- General Manager for Supervision, Human Resources, and Culture
- General Manager for Currency Issues, Accounting, Organization and Information Technology
- General Manager for Operations, Treasury, and Regional Branches
- General Manager for Documentation, Research, and Legal Affairs

However, the constitution maintains that the Central Bank should function independently from the Government yet “shall respect the economic policy defined by the Government.” (Central Bank, 2009) The Central Bank is organized according to the following structure:



(Bank of Mozambique, 2009)

Policy Implementation

The Central Bank states that the main goal of monetary policy is to reduce inflation. At a broader level, the Central Bank is “responsible for designing and implementing the monetary policy, according to all the macro-economic objectives of the Government. More specifically,

the Central Bank manages all Government loans allocated to commercial banks and the sale of treasury bills. The Central Bank is also allowed to extend credit to the Government up to a level of 10% of the average revenue collected in the previous two years. The main monetary policy instruments include the following:

- Rediscount and refinancing rate
- Open market operations
- Interest rate of the Central Bank
- Reserve Requirement Rate

(Central Bank, 2009)

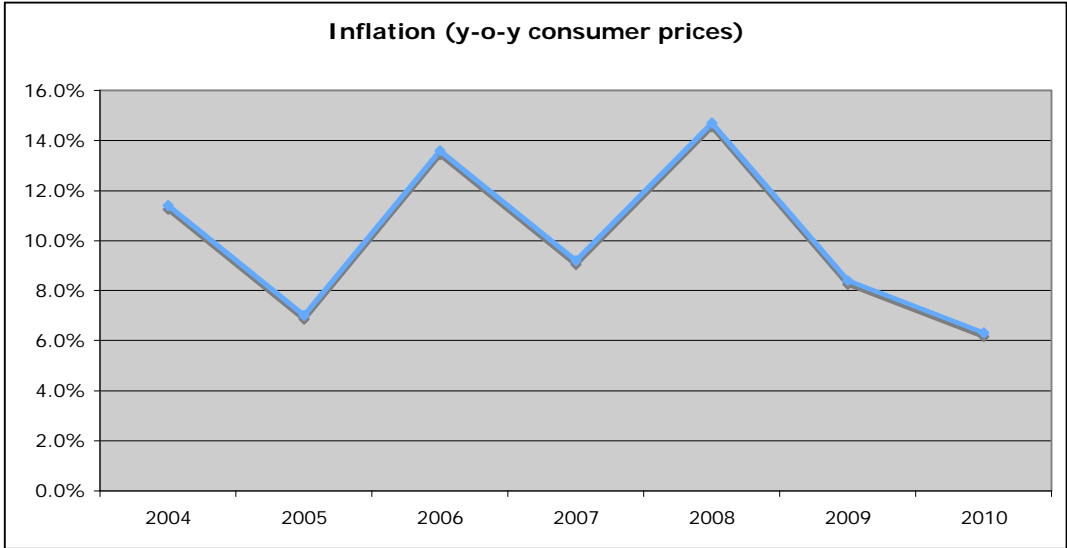
Interest rates and Inflation

The Central Bank sets exchange rates and interest rates to manage achieve its goal of managing inflation. The Central Bank manages inflation through a variety of operations, most important of which is setting interest rates including the Repo rate. Currently interest rates are set as follows.

1 day	1 week	2 weeks	3 weeks	1 month	2 months	3 months	6 months	1 year
12.00%	13.31%	14.06%	15%	17%	18%	19%	20%	21%

(Central Bank, 2009)

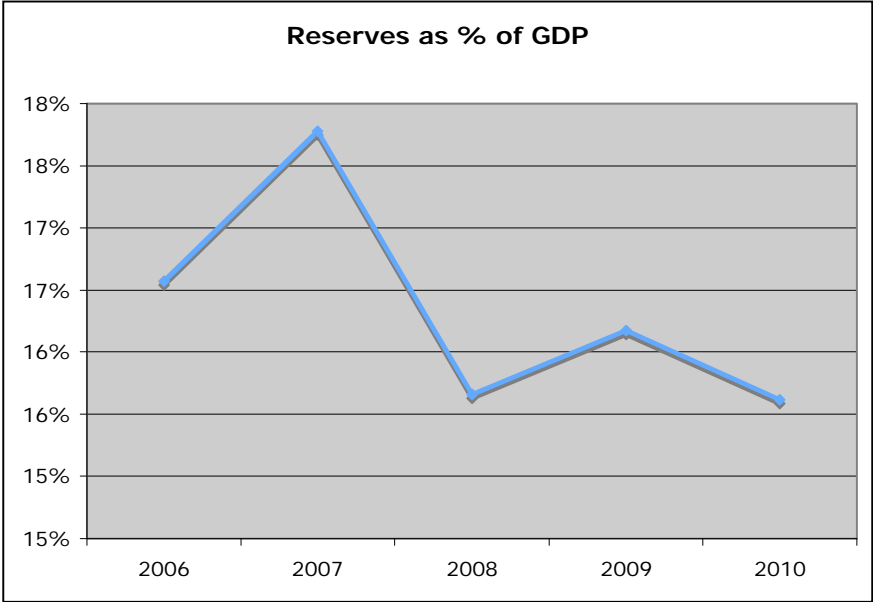
The government has shown continuous improvement in its ability to reduce and manage consumer price inflation (CPI) from approximately 15% in 2001 to 5% in 2007.



(BMI, 2009)

Reserves and exchange rates:

As noted above, the government has a total external debt of \$38.2 billion and reserves of foreign exchange, excluding gold, worth \$1.66 billion. The Central Bank is responsible for maintaining foreign reserves in accordance with its objectives of protecting the currency and managing inflation. Foreign reserves, ex gold, have remained at a stable level as a percent of GDP as shown below:



(Central Bank, 2009)

The Central Bank is also responsible for managing the official exchange rate for the country’s currency, the Metical. No target rate is set but the Central Bank manages the rate through its open market operations. The Metical is a free-floating currency that, as of April 13, 2009, exchanges with the US dollar at a rate of 26.5MT/\$1. The main currencies traded include the US dollar, South African rand, and the Euro.

The Banking Sector

Mozambique’s banking industry has grown significantly in recent years as the economy has maintained a high rate of growth. There are currently seven main banks operating in the country. The following list provides a brief description of all the major banks operating in Mozambique:

- Banco Internacional de Mocambique (BIM): This is the country’s largest bank with a market share of 40%. The bank was formed in 2001 through a merger between Millenium bcp and Banco Comercial de Mocambique (BCM). Millenium Bim has over 89

branches, 200 ATMs, and 2,300 points of sale throughout the country. The bank offers a wide range of services including retail banking, investment banking, credit analysis and syndication, and IPOs as well as other financial structuring. The bank also provides insurance services, which is discussed below in the insurance section.

- Banco Comercial e de Investimentos (BCI): BCI was founded in 1996 as a small investment bank, with 30 million meticaís, largely owned by Mozambican investors. A year later, 60% of the bank was bought by Caixa Geral de Depositos – making the bank majority owned by Portuguese shareholders. Sociedade de Controlo e Gestão de Participações (SARL) later acquired 38.63% and the remaining 1.37% was split amongst small shareholders. BCI has also formed another banking entity called BCI-Fomento, which focuses on agriculture and rural areas. The International Finance Corporation recently provided an \$8.5 million loan to BCI-Fomento to support SME development in rural areas.
- Moza Banco: This bank, which opened in 2008, is the newest comer to Mozambique’s financial services market. The bank started with capital of \$15, 51% of which is owned by Mozambican businesses. The focus for the bank is one corporate and investment banking though other services include commercial banking, consumer lending, commodity contracts brokerage, and securities trading. (Africa Research Bulletin. 2008. Vol 45, Issue 6.)
- Standard Bank: This is a South African bank which is Africa’s largest bank in terms of assets. The bank is active in all areas and in April of this year the bank launched a loan program to small farms and agricultural businesses throughout Mozambique worth \$25 million. (ISI Emerging Markets, 2009)
- Barclays Bank: Barclays was founded in 2002 through the acquisition of Banco Austral, a Portuguese owned bank. It has grown into one of the largest retail banks providing personal and commercial banking services. It has one of the largest footprints throughout the country including over 52 branches and a large network of ATMs. (Global Research Partners, 2008)
- Mauritius Commercial Bank (MCB): MCB Mozambique is a subsidiary of the Mauritius Commercial Bank Limited, which is based in Mauritius with total assets of over \$3.5 billion. MCB Mozambique started in 1999 and to-date provides a wide range of commercial banking services including financing for start-ups, small to medium enterprises (SMEs) and corporate clients. (MCB, 2009)
- Banco Internacional de Comercio (BIC): BIC is majority owned by ICB banking group, a large multi-bank holding company based in Switzerland that focuses on banking services in emerging markets. The bank focuses on international banking services and foreign trade finance.
- Banco Terra: Rabobank, a Dutch financial services firm, established Banco Terra in early 2008 with initial capital of \$7.7 million. The bank provides retail banking services in both

urban and rural areas but has a particular focus on agriculture in rural areas. (Africa, Research Bulletin. Vol 45, Issue 8. 2008)

- Banco Mercantil e de Investimento (BMI): BMI is a fast growing investment bank based in Maputo. It is one of the few banks that are primarily focused on investment banking services.
- African Banking Corporation (ABC): ABC was originally founded in 1956 and has grown to operating today throughout most of Southern Africa. Its main shareholders include the International Finance Corporation (IFC), Old Mutual, Botswana Insurance Fund Managers, and Citi Venture Capital Investments. ABC Mozambique was incorporated in 1999 as BNP NedBank, a joint venture between BNP Paribas and Nedbank of South Africa. ABC acquired 100% of the shares and changed the company name to ABC Mozambique yet maintained the same services including investment banking, treasury services, corporate banking, and structured trade finance.

As is shown by the list above, Mozambique has a vibrant and highly competitive banking sector. Many of the larger banks are subsidiaries of foreign-owned firms. Recent economic growth, especially in the natural resource and energy sectors has provided opportunities to expand commercial banking operations. Many banks have also worked to expand services to tailor to lower income customers and outside rural areas by expanding networks and developing micro-finance services, as will be discussed later in the “Other types of financial markets and mechanisms” section.

Regulation

The Central Bank is responsible for regulating all commercial banks in the country. The Central Bank is the only entity charged with issuing licenses to commercial banks and performs oversight to ensure banks operate within the terms of those licenses. Other regulations that banks must abide by include the following:

- minimum paid-up capital of 70 million Metical, or roughly US \$3 million.
- concentration of credit in one borrower is limited to 25%
- aggregate limit for large credit exposures is eight times the equity capital
- capital adequacy ratio is 8%
- banks must place 10.15% of the total deposits, including government deposits, they hold with the Central Bank
- net foreign exchange position must not exceed 10% of equity capital and the net overall foreign currency exposure is limited to 20%

To regulate the banking system, the Central Bank requires regular reporting by all banking institutions, holds meetings with bank managers, and conducts routine inspections as well as spontaneous inspections. (Central Bank, 2009)

Bond market

Government bond market

The Central Bank introduced the money market in 1997 that facilitates operations among commercial banks as well as trading of Treasury Bills and Central Bank bills. The bond market remains relatively small with light trading and few listings. The status of the bond market, as of April 9 2009, is shown in the table below:

Bond	Stock	Net Daily	Last Price	Price		Amount	Last Transaction
Description	Admitted to Quotation	Interest (MZN)	(MZN)	Variation (%)	Volume	(million MZN)	Date
Tesouro-2001/I – 1ªSérie	2.338.000	0,031	100	0,02	176.720,00	17,672	13-05-05
Tesouro-2004	2.500.000	0,031	100	-	585,00	0,059	30-10-08
Tesouro-2005 – 1ªSérie	4.960.000	0,027	100	-	1.049.175,00	104,918	23-06-05
Tesouro-2005 – 2ªSérie	300	0,725	-	-	-	-	
Tesouro-2005 – 3ªSérie	16.673.180	0,025	67	-33,00	4.000,00	0,268	29-01-09
Tesouro-2008	3.500.000	0,030	100	-	375.900,00	37,590	9/4/2009
BIM 2003	650	0,030	100	-	(a)	(a)	22-09-03
BIM 2003 Subordinada	850	0,037	100	-	(a)	(a)	20-11-03

s							
BIM 2006 Subordinadas	1.750.000	0,038	-	-	(a)	(a)	-
TDM 2004	1.250.000	0,008	40	0,00	1000,00	0,040	20-05-08
MCEL 2005	3.360.000	0,011	38,4	-36,84	125,00	0,005	6/11/2008
MCEL 2008	2.500.000	0,037	100	-	635,00	0,064	30-10-08
MCEL 2008 - II	2.500.000	0,046	100	-	750,00	0,075	6/1/2009
EMOSE-2006	1.350.000	0,042	-	-	-	-	-
Standard Bank 2007-Subordinadas	2.600.000	0,032	100	-	27.000,00	2,700	3/6/2008
ProCredit 2009	750	0,040	-	-	-	-	
Total	47.831.180				1.635.890,00	163,391	

Stock Market

The Maputo Stock Exchange, known as the Bolsa de Valores de Mozambique, is located in the capital, Maputo, and was launched in 1999 with the assistance of the World Bank and the Lisbon Stock Exchange. However, since then the stock exchange has not experienced great success, largely due to the instability of Mozambique's private sector. The exchange has primarily been used for the partial listing of state-owned enterprises or other state-run entities. Currently, the exchange has only two listings with accompanying stock price and capitalization data as of April 9, 2009 shown in the table below:

Share Description	Stock Admitted to Quotations	Stock Capitalizations (Million MZN)	Last Price (MZN)	Price Variation (%)	Volume	Amount (Million MZN)	Last Transaction date
CDM	112.089.014	3.923,12	35,00	89,19	1.000,00	0,035	3/3/09
CMH	593.412	163,19	-	-	-	-	
Total	112.682.426				1.000,00	0,035	

(Central Bank, 2009)

Non Banking Financial Institutions:

All non-banking financial institutions are regulated by the Central Bank and Ministry of Finance. The country currently has five credit unions, three leasing companies, one bulk purchasing management company, one investment company, one risk capital company, one locally based foreign credit institution, twenty foreign exchange houses, and twenty micro-finance entities. (Central Bank, 2009)

Insurance :

Overall, The insurance market is comprised of the following five companies:

- Emose - Empresa Moçambicana de Seguros, SARL,
- GA - Global Alliance (Moçambique), SARL,
- Hollard Moçambique Companhia de Seguros, SARL,
- MCS -Moçambique Companhia de Seguros, SARL and
- Millennium Seguradora Internacional de Moçambique, SARL.

Millenium is one of the largest of such providers. It has a 37% share of the insurance market and provides non-life and life products under two brands: Millennium seguros for Bancassurance and Impar with a network of branches, tied agents and brokers. At the end of 2007, the insurance company achieved gross written premiums of MT645 million and net profit of MT164 million, which equates to 62% of the market earnings, and a rise of 6% on the previous year's earnings.

(EuroMoney, 2008)

Types of Insurance:

Insurance firms in Mozambique provide a wide range of insurance services including Life, Property, Health, and Casualty insurance programs. In 2007, Zimre Mocambique became the country's first reinsurance company. The company's main shareholder is Zimre Ltd. With a 51% stake. Minority shareholders including Continental Reinsurance from Nigeria and the Mozambique Government's institute for managing state holdings, IGEPE, as well as the publicly-owned insurance company EMOSE. (Africa Research Bulletin. Vol 44, Issue 10. 2007)

Micro-finance

Mozambique has a highly active microfinance market including local and international institutions. The following table provides data on the most established institutions in the market:

Name	Acronym	Type	# of Borrowers	Loan Portfolio (US\$)
Banco Oportunidade de Mocambique	BOM	Bank	1,967,538	7,297
Caixa Comunitária de Crédito e Poupança	CCCP	NGO	449,277	13,307
Fundo de Credito Comunitario	FCC	NGO	680,070	2,801
Fundo de Desenvolvimento da Mulher	FDM	NGO	745,026	2,069
Hluvuku-Adsema Fundo de Credito Male yeru	Hluvuku	NGO	1,250,109	2,530
NovoBanco – MOZ		Bank	24,435,622	26,738
SOCREMO	SOCREMO	Bank	9,919,319	10,209
Tchuma Cooperativa de Crédito e Poupança	Tchuma	Non-bank financial institution	4,308,377	10,174

(MIX, 2009)

Thus, microfinance in Mozambique is a strong and growing sector that has and continues to receive support from the government, attention from international and domestic NGOs, and active involvement from the banking sector including banking and non-banking financial institutions. The sector still shows significant growth opportunities in both urban and rural areas.

Private equity and venture capital

Private equity and venture capital financing is a very new asset class in Mozambique that has not yet developed to reach significant scale. The IFC began on of the first forays into this investing class in 2004, with the launch of the Mozambique SME Initiative that made \$12 million in financing available to smaller firms. Some larger international funds, such as Sanlam

of South Africa, are increasingly active in agriculture and natural resource related investments. However, due to high interest rates and erratic currency fluctuations, the development of private equity as a significant force in the economy has been limited.

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