CONFEDERATION OF ECONOMIC ASSOCIATIONS OF MOZAMBIQUE (CTA)

Feasibility Study on the establishment of a development and sustainability fund for agro-processing/agribusiness SMEs

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List of Acronyms

AfDB	African Development Bank
AgDevco	Agricultural Development Company
BNI	National Investment Bank
CAPEX	Capital Expenditure
CEP	Provincial Economic Councils
DFI	Development Finance Institution
EIB	European Investment Bank
FECOP	Portuguese Cooperation Business Fund
FNDS	National Fund for Sustainable Development
FPC	Marginal Lending Facility Rate
GIZ	German Agency for International Cooperation
KfW	German state-owned investment and development bank
Norfund	Nordic Fund
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Cooperation Fund of Japan
PRSF	Financial system prime rate
R&D	Research and Development
ROI	Return on Investment
SDAE	District Services for Economic Activities
SMEs	Small and Medium Enterprises
T&C	Terms and Conditions
USAID	United States Agency for International Development
VC	Venture Capital
WC	Working Capital

1 Executive Summary

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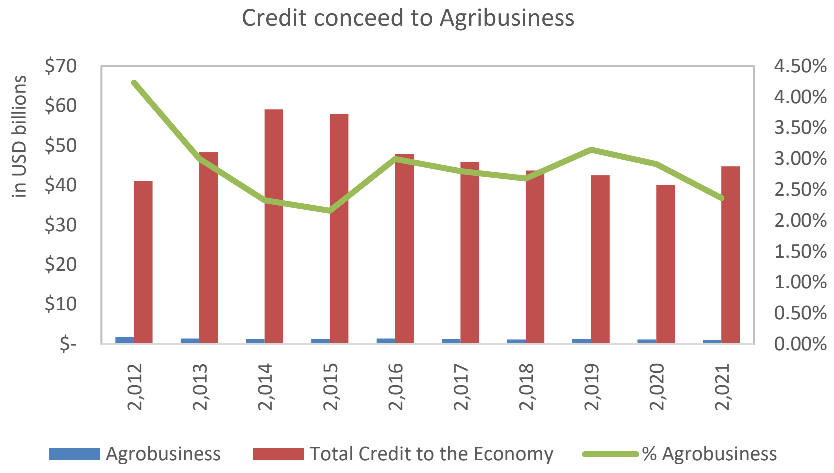
Mozambican SMEs have not been able to cope with the standards demanded by international investments opportunities and barely have been able to access regional and continental markets. It has never been clearer that SMEs need access to a diverse range of financial services to enable them becoming more efficient and competitive, building their capacity, and reducing unit costs of production.

Statistics from the Central bank, shows that between 2012 to 2021, only 2.7% of total credit conceded to economy was destined to the Agribusiness sector:



Aware of the challenges faced by the Agribusiness sector, but also the vast opportunities that would arise from a properly financed sector, the Govern of Mozambique and other international development institutions have been engaging in some Grant/Match granting initiatives, and in subsidized loans via implementing agents, mainly GAPI and BNI.

In the private sphere, there are several initiatives mainly promoted by bilateral and multilateral development agencies which mainly focus on financing agribusiness in developing countries. These funds come in the form of loans and/or equity grants, going from concessionary to almost commercial terms. In many circumstances include technical aid grants.

Despite these credit lines being allocated to commercial banks at interest rates ranging from 1% to 4% interest, they are ultimately put in the market at rates ranging between 10% to 15%.

Besides these credit lines managed by commercial banks, there are a few credits guarantee schemes, being the most relevant: (i) Agro-garante, managed by GAPI with involvement of several banks and FECOP. The other alternative Investment vehicle available in the market, are the Venture Capital with particular emphasis for AgDevco and Norfund.

Analysis on the existing credit lines showed that most of them offer overly restrictive T&C (high interest rates, short maturities, and inadequate grace periods). Collaterals are the most used instrument by the Lenders, which is some circumstances end up reaching 120% of the value of the credit need for collaterals. When commercial banks resort to their own resources to fund agribusiness SMEs, interest rates are almost over 18%, with the PRSF or FPC as references, plus or minus a Spread, which varies between 1% to 5%.

Executive Summary

Besides the constrains above-mentioned, there are other ones which are not explicitly written, notwithstanding, are always taken into consideration by credit valuation managers, such as the opportunity cost to ensure they adequately remunerate customer deposits, shareholder resources and cover their fixed operating costs.

Feasibility analysis on which type of fund would be recommend for CTA, **resulted in the selection of an Investment Firm, which is a category that falls within the Financial Companies**, established in Decree 20/2020 that regulates the creation of Credit Institutions and Financial Companies.

The selection was based on a set of assumptions discussed and agreed with CTA, among them the following: (i) the fund should be able to finance SMEs in a spectrum of values that promotes both inclusion (low financing needs) and gives enough leverage to projects of some scale (promotion of business growth/development); (ii) Financing Agribusiness SMEs throughout the entire production cycle and value chains, including WC and CAPEX needs; (iii) ensure the placement of credit products in the market occurs at bearable interest rates and relaxed T&Cs (e.g. reduce of the need of real collaterals, grace periods, audited accounts, among others), which normally prove to be restrictive, through the introduction of alternative and effective mechanisms for evaluating and monitoring the credit granted and (iv) ensure faster credit granting procedures through a simple and efficient organizational and operating structure (low fixed costs).

Resources for the Fund should come from wide range of institutional investors, notwithstanding, securing a pre-established investor (anchor) will be a catalyst for the process. AfdD is expected to be the anchor investor, providing the necessary funds for the establishment and initial operations of Fund.

In terms of Governance, the Fund should be led and governed by a Board of Directors whose members should be competitively hired based on technical expertise, leadership, and integrity. For transparency purposes, the governing of the Fund should be rotative among the main investors, while keeping CTA appointees permanent for a matter of the management consistency and continuity.

In terms of eligibility criteria, the requisites should not be too restrictive to avoid the quite common scenarios where resources are available but are not released/conceded to the business. Creative risk mitigating strategies should be deployed, among them: (i) ensure that for CAPEX financing, suppliers' invoices are directly paid the Fund and not the borrower (ii) creation of an unit or outsource technical assistance to monitor financed projects with a perceived relatively high risk, but huge potential impact to the communities are too be implemented.

2 Introduction

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2.1 Background

Agribusiness/Agro-Processing has a major role to play in development countries. The demand for high-value food products is increasing, creating an opportunity for the production and export of these goods. To capture the benefits of this trend and capitalize on this for long-term agricultural growth, the capacity for agribusiness/agro - processing must be strengthened at all levels.

The African Continental Free Trade Area (AfCFTA), expected to be ratified by Mozambique this year (2023) is expected to provide all sort of opportunities to Mozambican agribusiness SMEs, but to that end, they need to build the necessary capabilities rapidly, otherwise, they will see themselves engulfed by the continental competition and eventually end up perishing.

With aim of helping to provide a real financing alternative to agribusiness initiatives which still desperately demand financial resources to become efficient and competitive, the Confederation of Economic Associations of Mozambique (CTA)/ African Development Bank (AfDB) have embarked in the development of the current feasibility study for the establishment of a development and sustainability fund for agro-processing/agribusiness SMEs, and thus strengthen their productive and entrepreneurship capabilities to Integrate Regional and Continental Value Chains and be able to adhere to the standards demanded by the megaprojects in the country.

The Study identifies existing financing mechanisms, their pros and cos, assumptions that led for the Fund selection. Also provides a high-level roadmap on legal and technical aspects that should be observed when setting it.

2.2 Objectives

The overall objective was conducting a feasibility study on the establishment of a development and sustainability fund for Agro-processing/agribusiness SMEs.

The consultancy was expected to meet, among others, the following specific objectives:

- Analyze the financing and funding options currently available in the market directed to SMEs in the agricultural sector
- Propose and agree the Fund assumptions leading to the selection of the ideal type of fund
- Analyze the regulatory roadmap for the establishment of the envisaged fund
- Propose governance and management model, including accounting policies and procedures

2.3 Scope of the Study

The scope of work covered, among others, the following dimensions:

- Diagnosis of current financing challenges of the agribusiness sector, focusing on existing financing/funding facilities and challenges
- Assessment of the enabling legal and technical framework for the envisaged private fund establishment
- Financing strategy and design high-level Governance and management model

3 Methodology

3 Methodology

The study used a combination of quantitative and qualitative methods. Quantitative data was obtained from CTA databases, and from independent relevant studies. Qualitative analysis will be based on the data and information generated by existing research as well as by the desk review of existent documents. The team generated additional qualitative data through semi-structured interviews and as with key stakeholders and through Young Entrepreneurs and SMEs beneficiary of the Project.

- The consultancy employed a broad consultative approach, including interviews at Central and Provincial Government levels (Ministry of Industry and Commerce, Provincial Services of Economic Activities, Provincial Directorate of Industry and Commerce, etc.), Donors supporting agro-processing/agribusiness SMEs, Private Sector representatives (Head office of CTA, CEPs, and others)
- Consulting with development partners -the Team will held in-depth discussions with relevant officials of Mozambican agribusiness associations, commercial banks representatives among others.

4 Agribusiness financing in mechanisms in Mozambique

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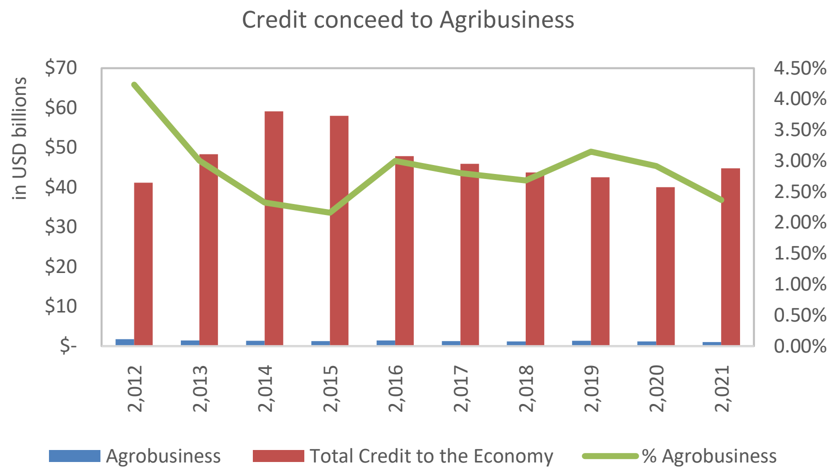
Mozambican SMEs have not been able to cope with the standards demanded by international investments opportunities and barely have been able to access regional and continental markets. It has never been clearer that SMEs need access to a diverse range of financial services to enable them becoming more efficient and competitive, building their capacity, and reducing unit costs of production.

Statistics on the credit conceded to economy (all sectors) shows that the credit to Agribusiness, understood as encompassing Agriculture, Cattle raising and Silviculture and forest exploitation, represented, in average, 2.7% of the Total Credit.

Graph 1: Credit conceced to Agribusiness 2012 - 2021

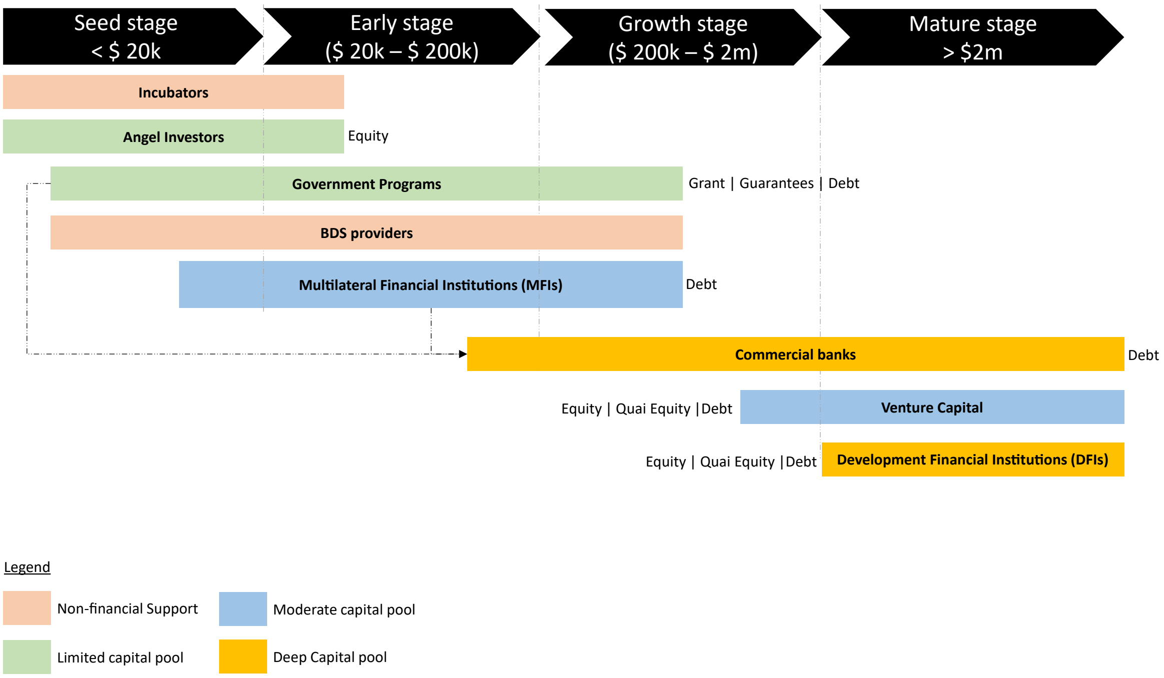


Source: Mozambique Central Bank

4.1 SMEs growth journey and available financing instruments

Depending on the stage of the business, there might be, theoretically, plenty of funding options available, though, the reality proves to be quite a conundrum for SMEs, especially those in the agribusiness. The most common forms of agribusiness financing and technical support in Mozambique, taking into consideration their needs are summarized in the diagram below.

Figure 1: SMEs growth journey and financial needs



The following section group available credit facilities in Mozambique throughout the SMEs growth journey.

4.2 Available Credit Lines in Mozambique

In the figure below are mapped all the main available credit lines for SMES in the agribusiness sector in Mozambique:

Figure 2: Summary of currently available Credit Lines

Currently Available Credit Lines			
Government Sponsored Programs	**Banks and Development Agencies**	**Commercial banks**	**Venture Capital**
> Sustenta Agro (BNI) > Business Plan Competition (SEJE) > Food Security Fund (MOZA and BCI) > Private Sector Recovery Program > Agro-garante (GAPI) > Covid-19 Credit Line (BNI) > GAPI Credit Line for Agricultural Commercialization > GAPI and Capital bank - Financing for agricultural commercialization	> FECOP (BCI and Moza Bank > Agro-garante > USAID funding agribusiness SMEs (Nedbank) > KfW funding agribusiness SMEs (Société Générale) > KfW funding agribusiness SMEs (Millennium BIM) > BCI SUPER Credit line (renewables usage in agribusiness (TSE4ALLM project) > GAPI AgriEmpreender (DANIDA) > GAPI All sectors credit line (BADEA) > GAPI All sectors credit line (Own resources) > GAPI – Agrijovem (Technical support and consultancy)	> Standard Bank - Agrobusiness value chain > Standard Bank Leasing to Agribusiness SMES (in partnership with Barclays and John Deere) > ABSA agribusiness credit line > BCI agribusiness credit line	> AgDevco > Norfund

4.2.1 Government Sponsored Programs

This section presents the most common Government Sponsored programs available in the market, which include pure Grants, Equity grants and subsidized credit lines.

4.2.1.1 Equity grants

Aware of the challenges faced by the Agribusiness sector, but also the vast opportunities that would arise from a properly funded sector, the Govern of Mozambique and other international development institutions have been engaging in some Grant/Match granting related initiatives to respond to the critical issues faced and allocate resources into the Agribusiness value chain.

Currently, a clear and reportedly well-functioning grant line is SUSTENA Agro, set up by World bank and FNDS (*Mecanismo de Subvenções Comparticipadas*), which was first launched in 2017 and is being implemented in districts of Nampula and Zambezia provinces with the aim of integrating small farmers into agricultural production value chains.

Another recent example is the Business Plan Competition, promoted and executed through the Estate Secretariate for Youth and Employment (SEJE), with the overall objective being providing better economic opportunities through better employment outcomes for youth and women. The winners will be granted up to $ 20k.

This in ongoing business plan competition targets a total of 10,000 candidates throughout the country. The aim is selecting a total 500 business and business plan and provide them with grants and early stages implementing coaching.

4.2.1.2 Subsidized credit lines

The Government also make available subsidized credit lines. The National Investment Bank (BNI) and GAPI, which are state participated financial institutions have been the main vehicles used to this end.

Loans through these lines have been put on the market on rates ranging between 6% - 8% (for maturities less than 1 year) and between 10% and 15% for maturities between 3 and 5 years.

The government-owned National Investment Bank was originally intended for financing infrastructure, but it has now diversified into managing donor lines of credit and government-funded guarantee funds. Previously, the partly government owned GAPI was usually approached for managing these types of funds and direct lending.

Currently, the BNI is managing approximately USD 100 million worth of donor or government financed funds, most of which are supposed to target rural areas.

4.2.2 Banks and Development Agencies

Bilateral and multilateral development agencies have been vital in the promotion of agribusiness financing. These funds come in the form of loans equity grant, ranging from concessionary to almost commercial terms, and in many circumstances include technical aid grants.

The most significant providers of international funds for financial intermediary lending are multilateral development banks (World Bank, AfDB, EIB, among others) as well as bilateral development agencies or banks (the German KfW, the Japanese OECF, USAID among others).

These Credit lines are generally implemented through Commercial Banks, which charge interest rates ranging between 10% to 15% while obtaining the same resources at 1% to 4% interest rates.

4.2.3 Commercial banks

The commercial bank option is the most common one, notwithstanding, given the unbearable interest rates, quite often become a non-realistic option, especially when the banks use their own resources.

From time to time, a few credit lines financed by international donors, with subsidized terms and conditions (favorable interest rates and grace periods) have been allocated by the multilateral and bilateral developing institutions.

Despite these credit lines being subsidized, there is a perception among potential borrowers that the banks have been using these resources to improve their liquidity rations and capitalize their balance sheets.

Commercial banks have been very cautious about entering agricultural lending apart from financing of the mainly seasonal requirements of the three main agricultural export industries sugar, tobacco, and cotton. Increasingly, the banks, especially Standard Bank, have been lending to tree-crop plantation companies, in particular banana, litchis, and macadamia (GIZ Study, 2022).

4.2.4 Credit guarantee funds

In Mozambique there a few guaranteed schemes, namely:

- Agro-Garante which is a system of guarantees for agribusiness centrally managed by GAPI
- FECOP which is scheme which provides guarantees ranging between 50% and 80% for SMEs and Micro/Associations/Cooperatives, respectively. Covered areas include both WC and CAPEX
- USAID, which unlike FECOP is a Portfolio guarantee, is directed the agricultural sector. Its Coverage rate is set at 50% and has enjoyed relative success in agriculture, with losses of around 10%
- AfD – ARIZ Loan-to-loan guarantees and portfolio guarantees. Coverage rate ranges between from 50% to 75% for SMEs and Micro, respectively. Maximum loan amount is set at EUR 300k. Its utilization in Mozambique has been very low. For example, since 2014 BCI has financed only 10 MSMEs.

4.2.5 Development finance

GAPI is currently the only Development Finance in the country. Manages or delivers a wide variety of products including micro and SME loans through donor-financed credit lines, guarantee funds. Prior to the establishment of BNI, GAPI was the focal institution for managing and disbursing donor funds intended for stimulating private sector loan financing.

4.2.6 Venture Capital funds

According to a GIZ study (2019), Norfund and AgDevco are the two equity investors been operating in Mozambique. AgDevCo originally targeted SME agribusinesses with a pilot in collaboration with the Beira Agricultural Growth Corridor investing in 14 SMEs. Problems emerged with these loans following the 2016 financial crisis and AgDevCo has since moved away from SMEs and is now partnering with some of the larger companies. Norfund is another Venture Capital which has always worked with larger investees.

5 Key Findings

5 Key Findings

The Study was both qualitative and exploratory, and the main objective was to capture underlying patterns, including the performance of available credit lines in the Mozambican market. In this regard, resulting findings should not be generalized to all credit lines whose information may not have been collected due to information unavailability or any other limiting reason.

Findings are extended to the perceptions of Lenders, especially commercial banks managers regarding the attractiveness/riskiness of the agribusiness value and T&C conditions they generally agree with their international Lenders.

The findings are divided into two (2) categories, namely: (i) those objectively related to the Terms and Conditions and (ii) non-written (explicit) reasonings lenders evoke.

5.1 On the Terms and conditions

- Existing credit lines and alternative mechanisms (e.g., Credit Guarantee Schemes) invariably involve significantly restrictive access T&C
- Most of the credit lines opened through government programs or financed by Banks and International Development Agencies have slightly more favorable T&C, notwithstanding, they are still inaccessible due to the strict eligibility requirements established
- Interest rates on this type of lines, whose funds are placed with commercial banks at interest rates (subsidized) between 1% and 4% on average, end up being conceded (when so) at rates between 10% and 15%
- The bank's argument is that (i) the T&C agreed with line providers and (ii) its own fixed and opportunity operating costs make lower interest rates unfeasible
- In cases where banks resort to own resources, interest rates are almost higher than 18%, with the PRSF or FPC as references, plus or minus a Spread, which varies between 1% to 5%
- Collaterals are the most used instrument by the Lenders, which is some circumstances end up reaching 120% of the value of the credit
- Available guarantee schemes have been unable to impact substantially the interest rates, since the banks still bear part of the risks and are willing to drive the down
- Besides the interests, other T&C such as grace periods, most of the times to not related to the nature of the agribusiness, where some crops or business take up three (3) to start generating relevant cash flows

In general, the level of use of these lines is very low, as interest rates and other T&C are inaccessible to typical SMEs.

5.2 Other non-objective reasons

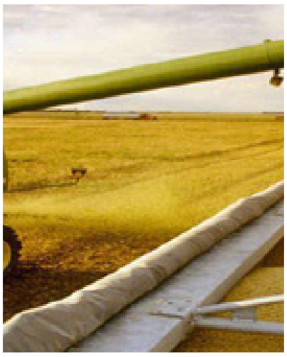
When conducting conversations with some Lenders, a set of non-written (explicit) lending conditioning reasons emerged, and mainly are the following:

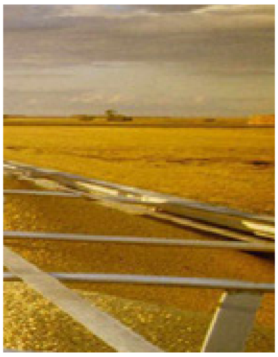
- Banks are unwilling to concede credit to business within the Agriculture Value Chain due its perceived riskiness, which related to seasonality issues and relatively unpredictable yields
- In addition to the demanding requirements in many of the lines, there is the bureaucratic aspect in the evaluation processes which makes the credit approval process quite lengthy. One glaring example is

FECOP, which goes through several levels of approval locally (Mozambique), notwithstanding the decisive body is the fund committee based which is based in Portugal

- For those lines made available by banks/development agencies, commercial banking does not have teams dedicated to these lines in its structure or at least with relevant knowledge to analyze requests, though, they still apply to these funds since they enhance their liquidity and better associated ratios
- Still regarding these credit lines, commercial banks argue that these lines are coupled with resources for their marketing and advertising to the intended SMEs
- Commercial banks managers also argue that there is an opportunity Cost to taken into consideration. Their focus is to ensure they adequately compensate customer deposits, shareholder resources and cover their fixed operating costs. This makes banks prefer to place their efforts in their own products (resources) on the market
- In the case of credit guarantee systems, to reduce the costs of credit analysis, banks prefer to finance Portfolios (aggregated transactions)








6 Fund Selection

6 Fund selection

Based on the legally feasible options, according to Decree nº 20/2020 establishes the legal framework for credit institutions and financial companies, and pros and cons of existing credit lines types, a series of assumptions were established, leading to the selection of the most suitable type of fund organization.

6.1 Key assumptions

The fund selection was based on set of assumptions CTA and relevant stakeholders considered essential to bring an effective financing instrument to the market. A set of five (5) assumptions, namely:

1) Financing SMEs in a spectrum (minimum and maximum values) that promotes, on the one hand, their access by SMEs with relatively low financing needs (inclusion) and, at the same time, finance projects of some scale (promotion of business growth/development)
2) Financing Agribusiness SMEs throughout the entire production cycle and value chains, including WC needs (lower amounts and maturities: less than 12 months) and Capital (larger amounts and maturities: 12 to 60 months)
3) Ensure the placement of credit at low interest rates, even when compared to those of credit lines opened by banks and international development agencies
4) Relax some of the normally required access T&Cs (e.g. real guarantees, grace periods, audited accounts, among others), which normally prove to be restrictive, through the introduction of alternative and effective mechanisms for evaluating and monitoring the credit granted
5) Ensure faster credit granting procedures through a simple and efficient organizational and operating structure (low fixed costs).

6.2 Options analysis

A total of four (4) legally feasible options were analyzed in terms of their pros and cons, aiming at recommending the most suitable option for CTA.

6.2.1 Option 1 - Grants conceeding fund

Grants are an amount of money that a government or other institutions provide to an entity for a particular purpose. In general, there are eligibility requirements to meet but no repayment duties. Another form of grants are the Matching grants, which require the applicant to provide funds in addition to the grant award. The applicant is matching the grant funds with their own funds.

Below are a discussed the Pros and cons of this kind of fund.

	• Promoting access to finance in an inclusion logic • Contribution to local employment • Financing of SMEs that would have difficulty accessing financial resources from existing sources in the market, other than Angel Investors or Government Programs
	• SMEs with limited or non-existent organizational capacity • In many cases they operate informally (not legalized) • The granting of these resources presupposes the absence (or very limited) of a logic of profitability and/or self-sustainability of the fund • Constant need to identify funders (non-investors) of grants

	High running costs, however unpaid

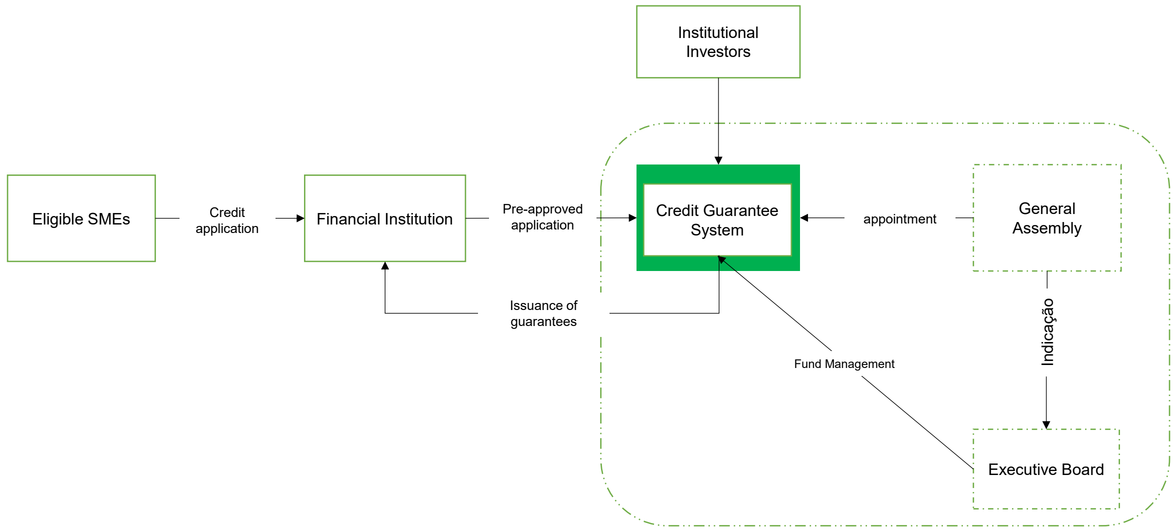
6.2.2 Option 2 - Credit Guarantee Fund

A guaranteed fund is a type of collective investment scheme that guarantees to payback a pre-determined percentage of the invested capital, subject to satisfaction of certain pre-determined conditions.

According to an OECD discussion Paper on Credit Guarantee Schemes (2016), the reluctance of banks to take on the high risks and administrative costs of lending to small businesses has been the reason for the establishment of credit guarantee funds. Credit guarantee funds are established usually with government financial support, to provide lending institutions with money to compensate for the losses sustained when borrowers default on loans.

A typical functional approach of a Credit Guarantee System is presented below:

Figure 3: Credit Guarantee Scheme typical structure



In some circumstances, a credit guarantee fund can facilitate access to credit. Many micro- and small entrepreneurs with good business plans cannot access bank loans because they do not have suitable collateral. A guarantee fund is especially created to guarantee the loans for which entrepreneurs apply for at the bank. Well-designed guarantee funds apply a risk-sharing mechanism: both the bank and the guarantee fund share part of the credit risk in case the entrepreneur cannot repay their loan.

Below are a discussed the Pros and cons of Credit Guarantee schemes

	Promotion of access to finance for businesses operating in the agribusiness sector through the collateralization of part of the financing, between 20% and 80% in some cases They contribute, to a certain extent, to formal financial institutions granting credit at lower interest rates relative to the market They reduce the risk of default if they have a monitoring and technical assistance component attached Greater openness to applications even for relatively unorganized businesses in terms of management

	- Reality shows that they have not been able to help reduce the risk perceived by the banks and thus the interest rates - Moral hazard. An entrepreneur, who knows that their loan is guaranteed, may feel less pressure to repay the loan - High operational costs. Usually both the bank and the guarantee fund must evaluate credit applications and monitor the performance of the client - Sustainability concerns. It is not easy to create a guarantee fund that can cover its losses with the income from guaranteed fees

6.2.3 Option 3 - Venture Capital

A Venture Capital fund is a specialized form of Private Equity which typically involves investing in or providing financing to startup or early- stage companies with high growth potential. VC funds are entities take part in the risks of the business, making funds available and becoming a partner or shareholder of the financed company.

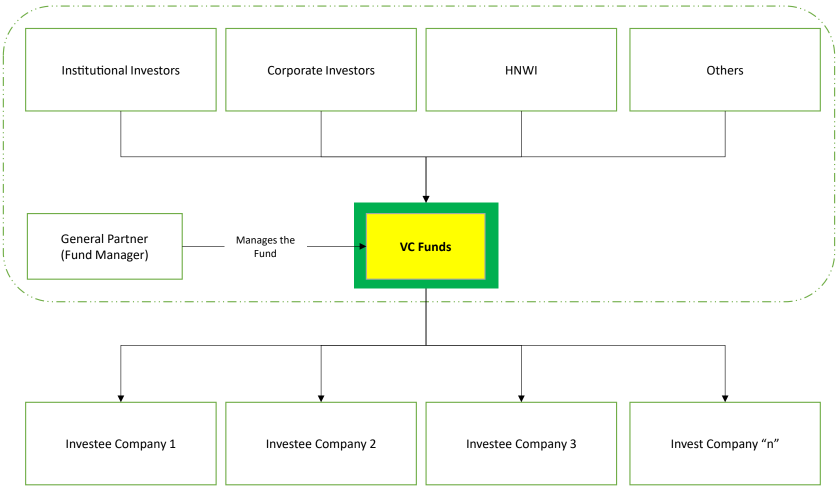
As with most alternative funds, most of the VC funds are structured as limited partnerships. These limited partnership agreements exist between the fund manager, called the general partner (GP), and the fund's investors, called limited partners (LPs). The funds generate revenue through several types of fees:

- ***Management fees***: Fees are based on committed capital (or sometimes net asset value or invested capital) and typically range from 1–3% annually. Sometimes these fees step down several years into the investment period of a fund.

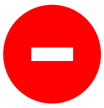
- ***Transaction fees:*** Fees are paid by portfolio companies to the fund for various corporate and structuring services. Typically, a percentage of the transaction fee is shared with the Limited Partners by offsetting the management fee.

A typical functional approach of a Venture Capital Fund presented below:

Figure 4: Venture Capital fund typical structure



Below are a discussed the Pros and cons of Venture Capital Funds

	• They contribute to the growth of the company in which they invest, not only through the capital they inject • They add specialized know-how to the investee through a network of consultants or collaborators of the fund brings • As this is not a debt, they allow management to strategically focus on business growth
	• VC Fund seek businesses with high growth potential and high ROI • High ticket size (>$1.5-2.0m) • High administrative costs for partnership purposes, which can cost between $20k and $30k • Candidates for these types of funds, in addition to being duly registered, must have properly organized support processes and audited accounts • Limits the investee's ability to make strategic decisions until the Equity Partner exits – after 3 to 4 years on average • It excludes a large part of the SME segment, ending up financing a few large projects • Need for expertise to integrate the executive management of each of the investees and ensure business growth and profitability

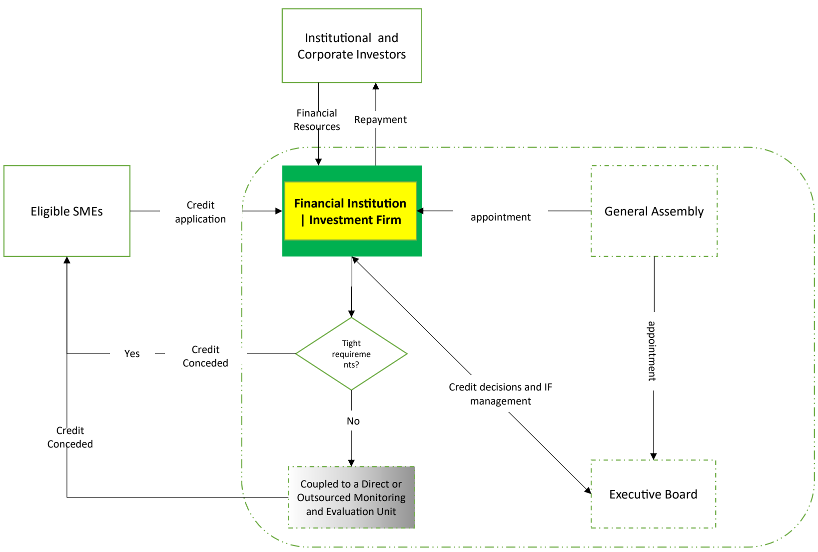
6.2.4 Option 4 - Development Finance

Investment funds with a development perspective are an effective tool for agricultural related business development because they allow the employment of different financial instruments and often help provide or attract technical support to help mitigate risks.

Being one the objectives/assumptions promoting the development of the sector, an Investment Firm option would benefit from the provisions of article 85 of the Decree 20/2020, which essentially creates a room for specific prudential limits, different from those that apply for Institutions of Credit (Commercial banks).

A typical functional approach of a Development Finance firm is presented below:

Figure 5: Investment firm typical structure



Below are a discussed the Pros and cons of a Development Finance firm

+	The operating model resembles that of a typical financial institution, with no legal constraints that would prevent its formation Given the objective of promoting access to finance, a DFI would be able to practice interest rates and other favorable T&Cs compared to the market, through less restrictive credit policies and lower operating costs (fixed) As one of the objectives/assumptions is to promote the development of the sector, would benefit from the provisions of article 85 of the CI Law | SI, which essentially provides for the establishment of specific prudential limits for credit institutions and financial companies whose main activity is the Promotion or development of the national economy
−	Considerable operating structure costs (fixed costs) and monitoring and assessment of the credit risk granted Subject to banking supervision, albeit with relaxed limits and prudential ratios

6.3 Contrasting the options and selection

The table below, contrasts the available options given the assumptions established for the fund. These assumptions were discussed and agreed with the Client.

Table 1: Constrating the diferent private fund options

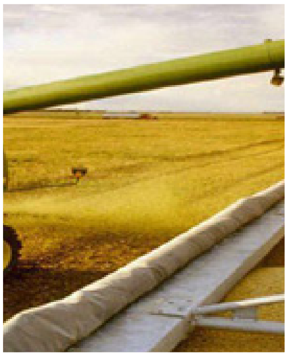
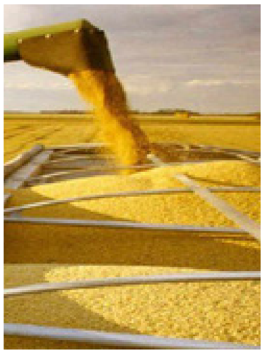
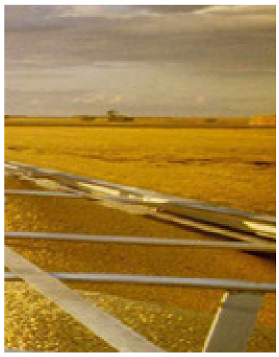
Fund type / Assumption	Grants conceding	Credit Guarantee Schemes	Venture Capital	Investment Firm
Promotes inclusion (< 20k)	Yes	Yes	No	Yes
Finances projects of some scale (> $ 1m)	No	Yes	Yes	Yes
Finances the entire production cycle and value chains and SME maturity stages	No	Yes	Yes	Yes
Ensure Low interest rates and adequate T&C for agribusinesses	N/a	No	No	Yes
Faster credit assessment procedures through a simple and efficient organizational and operating structure	Yes	No	No	Yes

Conclusion/opinion

Based on the assumptions above-mentioned the most viable type of Fund is an Investment Firm, since it will confer allow flexibility for all relevant assumptions set.

This model gives greater control over the fund's strategic and operational direction, helping to provide better conditions for SMEs to access financing. If fixed costs are properly established and controlled, interest rates may well be below or at least within the market range for resources obtained at subsidized credit lines - 10% to 15%



7 Establishing an Investment Firm

7 Roadmap for establishing of an Investment Firm

The fund selection performed (feasibility) recommended that the envisage fund should take the form of an Investment Firm (hereinafter, the "the Fund). This correspond to the notion that should be independent (of government control) despite being able to receive public funds, and benefit from a less restrictive supervision from the Central Bank.

These section presents a high-level roadmap for the Fund establishment, including Legal and Technical aspects.

7.1 Legal framework

The Decree nº 20/2020 establishes the legal framework for Credit Institutions and Financial Companies operation in Mozambique and its article nº 6, typifies the permitted financial companies.

Pursuant to article 16 of the Law on Credit Institutions and Financial Companies (Law No. 20/2020, of 31 December), the incorporation of credit institutions and financial companies depends on authorization to be granted, on a case-by-case basis, by the Governor of the Bank of Mozambique. At the level of Banco de Mozambique, the Regulation and Licensing Department is responsible for receiving and issuing opinions regarding licensing requests from credit institutions, financial companies, and other microfinance institutions.

When applying for the establishment of the Fund, the following legislation, should be observed:

- Law nº 20/2020, of December 31 – Law on Credit Institutions and Financial Companies, published in the B.R. nº 250, I series, 3rd supplement (LICSF)
- Decree nº 56/2004, of 10 December – Regulation of the Law on Credit Institutions and Financial Companies, published in the B.R. nº 48, I series, 2nd supplement (RLICSF
- Decree nº 57/2004, of December 10, 2004 – Regulation of Microfinance – approved by the published in the B.R. nº 48, I series, 2nd supplement (RMIC)
- Notice no. 7/GBM/2017, of 2 June – Minimum capital for credit institutions, finance companies and microfinance operators, published in the B.R. nº 86, I series

The requisites to be observed are the following:

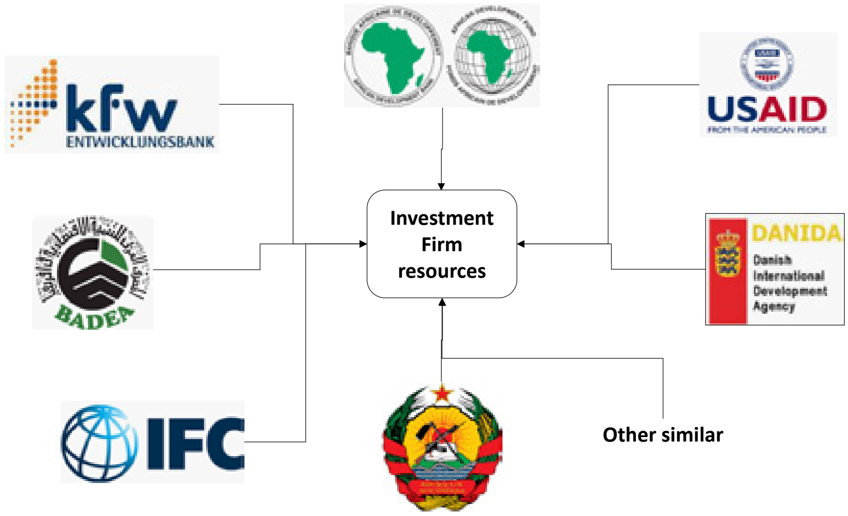
- Adopt the form of a limited liability company
- Have share capital not less than the legal minimum of 1,700,000,000.00 MT
- Pursuing legally permitted activities
- Have the share capital compulsorily represented by registered shares.

7.2 Fund raise strategy and potential source of funds

Resources for the Fund should come from wide range of institutional investors, notwithstanding, securing a pre-established investor (anchor) will be a catalyst for the process.

Developing a strong a business case and investor documents (teaser/pitch decks) may help attracting state and development banks and agencies.

Figure 6: Potential sources of funding



AfdD is expected to be the anchor investor, providing the necessary funds for the initiation of the operations.

7.3 Governing model

7.3.1 Governance

It is proposed that the Fund should have two-tier governance structure, with a Supervisory board (alternatively General Assembly) setting the broad objectives of the Fund and a Board of Directors ensuring that the Invest firm meets its objectives.

7.3.1.1 Supervisionary board

The supervisory board ("General Assembly") should perform a strategic and advocacy role. Its members should be all relevant resources providers. The board should meet, at least, twice a year to discuss the Investment firm operations, provide guidance, help overcome administrative or other barriers, and check that the Fund is still in line with its mission.

7.3.1.2 Board of Directors

The Funds' everyday business operations should be led and governed by Board of Directors. It is proposed that Board of Directors ensure that the business operates in line with the supervisory board's objectives and lead the Funds' interface with investors, government, donors, and other stakeholders.

The Board of Directors would also ensure that regular monitoring and evaluation is conducted. Members of the Executive Board should be competitively hired based on technical expertise, leadership, and integrity.

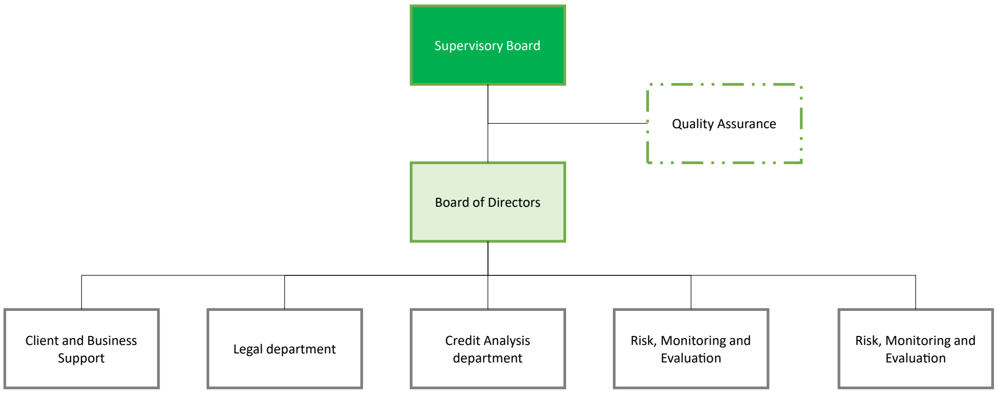
For transparency purposes, the governing of the Fund should rotate among the main investors, while keeping CTA appointees permanent for a matter of the management consistency.

7.3.1 Organizational structure

It is proposed that the Fund initially operates as a lean organization: the number of staff should be as low as possible to keep down fixed costs. Professional and technically skilled staff members with demonstrated integrity could run day-to-day operations, whilst a supervisory board and board of directors would be responsible for setting the Funds' strategic objectives.

The supervisory board would be responsible for strategic policy and advocacy, whilst the Board of Directors would be responsible for business strategy and ensuring that the Fund meets the strategic objectives of the supervisory board.

Graph 2: Proposed organigram for the Fund



In keeping the number of staff as low as possible, it will be important that the Funds' management ensure a good match between functions to be carried out and personnel recruited.

7.4 Eligibility criteria

Eligibility criteria should not be too restrictive, since overly restrictive can lead to scenarios observed in existing credit lines, which simply do not concede funds.

The Fund is expected to finance all agribusiness types throughout the entire production cycle and value chains. The fund is expected to fun WC needs (lower amounts and maturities: less than 12 months) and Capital (larger amounts and maturities between 12 and 60 months.

7.4.1 Terms and Conditions

1) Letter from the client requesting financing
2) Registration certificate of legal entities and license/permit to carry out the activity
3) Statutes published in the Bulletin of the Republic
4) Single Tax Identification Number (NUIT)
5) Balance sheets and income statements for the tenderer's last 3 financial years
6) Last available balance sheet (not applicable to micro companies)
7) Map of cash flows for the last three financial years (applicable only to
8) companies of the simplified regime-ISPC)
9) Summary of the Book of Purchases and Sales of the last three fiscal years (applicable
10) Only to companies in the simplified regime-ISPC)
11) Operating budget or business plan, depending on the purpose of the application (treasury or investment)
12) Specific declaration of commitment to maintain permanent job
13) Correct completion of the funding application form

7.5 Lending risk mitigation strategies

Since the fund will seek to move from the traditional approaches in use in the commercial banks, which are very centered in requisites like collaterals, audited financial accounts and other restrictive, a set of alternative strategies will be deployed, including but not limited to the following:

1) Ensure for CAPEX financing, suppliers' invoices are directly paid the Investment firm and not the borrower himself
2) Ensure all the clients holds a revenue account in the Investment firm
3) Create an unit or outsource technical assistance to couple to financed projects with a perceived relatively high risk, but huge potential impact to the communities are too be implemented.

8 References

8 References

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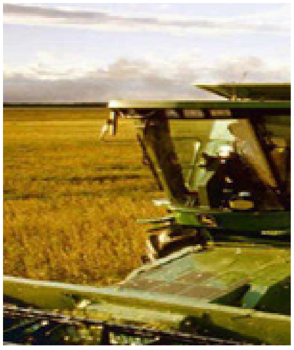

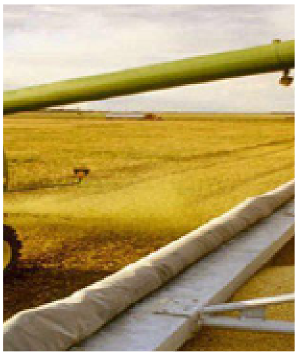

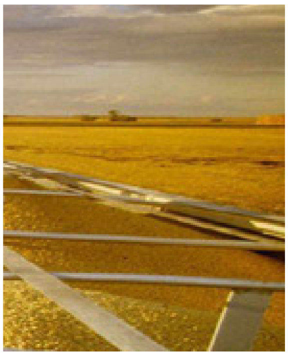


Appendix A. Market Availble Credit Lines

Government Sponsered

Product type and name	Objectives |Eligble Sector	T&C
Food Safety Fund (FSA)	Agrobusiness	Interest: 14%; Minimum MZN 250,000; Maximum MZN 2,500,000; 60 months for investments; 12 months for working capital; Commissions: 2%; Other standard requirements in force at Moza Banco
PRSP (Programme for the Recovery of the Private Sector) Funded by the Embassy of Italy, and managed by Moza Banco	Agricultural production, trade in goods, provision of services, agro-industry; SMEs; Manica, Sofala, Zambezia	Interest: 10%; Commissions: 2%; 60 months for investments; 12 months for working capital; 12 months maximum grace period; Maximum: MZN 1,325,000; Other standard requirements in force at Moza Banco
Agro Garante - GAPI	Agrobusiness	Guarantee between 20% to 80%, depending on the financed amount; Minimum: MZN 750,000; Maximum: MZN 15,000,000
COVID-19 credit line	To support SMEs in investments and treasury reinforcement	MZN 2,500,000 up to 15,000,000; Interest from 8% to 12%; Up to 12 months; Guarantees: real guarantees required. for example, real estate

Credit Guarantee Schemes

Institution	Product type and name	Objectives |Eligble Sector	T&C
A couple of Banks	FECOP	Agribusiness and other industries; MSMEs, Mozambican Associations and Cooperatives	80% Financing and 20% Equity; Interest: Prime Financial System less Spread 3 to 5%; Maximum: MZN 25,000,000; 60 months for investments; Maximum 12 months grace period of capital; Commissions: 2%; Other standard requirements in force at Moza bank
Nedbank	USAID Agricultural Credit Facility for Financing SMEs in the Agricultural Sector - Standard Agricultural Finance and Term Loans	Borrowers located in Nampula, Zambézia, Manica & Tete Province in any Agro Business; Borrowers located in any region (except Maputo) but in the oilseeds, nuts, fruits and legumes value chain; Companies owned by women; Until 2024, with the maximum term for granting credit until 2023	Interest rates like other banks for self funded loans
Various banks	Agro Garante - GAPI	Agrobusiness	Guarantee between 20% to 80%, depending on the financed amount; Minimum: MZN 750,000; Maximum: MZN 15,000,000

Development Finance

Institution	Product type and name	Objectives |Eligble Sector	T&C
GAPI	BADEA (Arab Bank for African Econom	Agriculture, small industry, agribusiness, services; excludes tourism; MPME; Nampula, Cabo Delgado, Niassa.	Interest 18 to 32% p.a.; MZN 900,000 to 9 million; Up to 36 months; Collateral: at least 120% of the loan amount; Other standard loan requirements
GAPI	Loans with Gapi's own funds	General (all sectors); SMEs, all provinces	Interest: 18 to 23% p/a; Maximum MZN 5 million; up to 5 years; For working capital or investments; Collateral: at least 120% of the loan amount; Other Standard Loan Requirements
GAPI	AgriJovem - loan	Agriculture, poultry; excludes forestry; Young entrepreneurs aged 18 to 35 years old; GAPI enters into partnerships with training institutions to train students, identify potential customers and provide technical assistance All provinces	Interest: 12% p.a.; m Maximum MZN 700,000 and 36 months; Guarantees: deposit of 1% of the loan amount
GAPI	Credit Line for Agricultural Marketing (	Credit for commercialization; Operated by GAPI and ICM for marketing and processing	From MZN 100,000 to 2,500,000; Interest: 1.5% monthly; Up to 24 months; Banking guarantees
GAPI	Financing for agricultural marketing (managed by Capital Bank and GAPI)		Financing for agricultural marketing (managed by Capital Bank and GAPI)

Commercial banks own resources

Institution	Product type and name	Objectives |Eligble Sector	T&C
Millennium BIM Bank of Mozambique/ German Cooperation via KfW	Credit line for MSMEs in the agricultural sector - Credit line with reduced interest, in local currency	SMEs in the agricultural sector; national scale	Reduced interest; Long-term financing (2 to 5 years); Collateral: real estate; Minimum value: not defined. Maximum amount goes up to MZN 10,000,000
Standard bank	Financing of agricultural value chains with proven performance and potential, through short, medium and long-term products adjusted to the specific activity cycle	Agribusiness; Medium and large companies and their respective ecosystems (suppliers, outgrowers, etc.); all provinces	Normal terms for commercial loans; Interest: Central Bank reference rate (FPC) plus spread of 0.5–4%
Standard bank	Lease (Barclays & John Deere)	Companies involved in primary, secondary and logistical activities in preferred value chains	Can lease with other equipment suppliers, although without entering into formal contracts
Société Générale Moçambique (Banco de Moçambique/ German Cooperation via KfW)	Credit line for MSMEs in the agricultural sector;	MSMEs in the agricultural sector	Reduced interest rates; Long-term financing (from 2 to 5 years)
ABSA	No name	Agribusiness	From MZN 100,000 to MZN 25,000,000; Interest: 23.35%; From 3 months to 3 years; Guarantees: contracts with suppliers, or other comfort.
BCI	No name	Line of credit for agribusiness	Minimum value: not defined. It goes up to MZN 15,000,000; Interest: 15%; From 12 to 60 months
BCI	FECOP - Portuguese Cooperation Business Fund	For individual producers, cooperatives, MSMEs operating in the agribusiness sector	Minimum value: not defined. It goes up to MZN 25,000,000; Interest: variable spread from 3% to 5% from 11.7%; From 18 to 60 months
BCI	SUPER Sustainability and Productive Use of Renewable Energy credit line	To support the adoption of integrated renewable energy systems in SMEs as well as rural food processing industries	Minimum value: not defined. Maximum: up to the MZN equivalent of $50,000; Interest: 7.5% Up to 36 months

Appendix B. Institutions and people contacted

Order No.	Name of Institution /Entity	Person Interviewed	Position/Title	Department / Board	Email
1	CTA	Miguel Jewel	Member	Department of Policy and Financial Services	CTA - Confederation of Economic Associations of Mozambique
		José Caldeira	Member	Department of Policy and Financial Services	CTA - Confederation of Economic Associations of Mozambique
		Jose Ngale	Member	Department of Policy and Financial Services	CTA - Confederation of Economic Associations of Mozambique
		Antonio Vegma	Member	Department of Policy and Financial Services	CTA - Confederation of Economic Associations of Mozambique
		Pedro Mosca	Member	Department of Policy and Financial Services	CTA - Confederation of Economic Associations of Mozambique
		Pylon chongo	President	Agro-Business, Nutrition and Food Industry	CTA - Confederation of Economic Associations of Mozambique
		Bento Uachisso	Member	Agro-Business, Nutrition and Food Industry	CTA - Confederation of Economic Associations of Mozambique
2	MIC	Gilberto Mabunda	Head of the Business Environment Improvement Department	DASP - Private Sector Support Department	gilnayt@gmail.com
		Jose Maria	Head of the Department of International Internal Trade Policy	DNCI - National Directorate of Internal Trade	NA
		Jose Libombo	DASP advisor	DASP - Private Sector Support Department	NA
		Claire Mateus Filipe Zimba	National Director	DNCE - Directorate of Foreign Trade	NA
		Papucides Ntela	Director Studies and Statistics	Mozambican Commodity Exchange	pnpapucides4@gmail.com
		Liliana Rebelo	Quality Department Head	Mozambican Commodity Exchange	lilianarebelo96@gmail.com

3	MADER	Sergio Sambo	Head of the Monitoring and Evaluation Department	Planning and Policies Department	NA
4	INNOQ	Manuel Nunes	Director of Certification	Certification Department	mnunes285@gmail.com
5	IPEME	Dario Muianga			dario.muainga@ipeme.gov.mz
		Francisco Mabunda			francisco.mabunda@ipeme.gov.mz
		Messia Cumbi			messias.cumbi@ipeme.gov.mz
		Angelo Mahanjane			ab.mahanjane@gmail.com
6	AMB	Alfredo Magaia	Economist	Member	amagaia@amb.co.mz
		Elísio Langa		Member	
7	BCI	Anésio Guambe	Coordenador	Gabinete de Negócio Especializado e Banca de Investimento	
8	Moza bank	Higino Machango	Technician	Direction Corporate and Investment Banking	higino.machango@mozabanco.co.mz
9	FENAGRI	Hernani Mussanhane	President	NA	h.mussanhane@fenagri.co.mz
		Almeida Tomas	Consultant/Jurist	NA	altomaz.cdm@gmail.com
		Alexandre Santos	Member	NA	
		Sergio Muchanga	Member	NA	muchanga.sergio@gmail.com
		Octávio Queface	Member	NA	octavio.queface@gmail.com
10	BNI	Ancha Omar	Head of Unit	Business Development and Sustainability	Ancha.Omar@bni.co.mz
11	Ned bank	Manuela Costa	Director	*Marketing* Department	Manuela.Costa@nedbank.co.mz
12	Agencia do Vale do Zambeze	Janeiro Salvador			janeiro.salvador0@gmail.com
		Alcides Nhamatate			alcidesnhamatate@gmail.com
13	GAPI	Rodolfo Muholove	CEO	Director Executivo	Joaquim.ramos@gapi.co-mz
		Joaquim Ramos	Director	Responsável pela área de Micorfinanças	Joaquim.ramos@gapi.co-mz