

Ernesto Gouveia Gove: The challenges in extending financial services throughout Mozambique

Speech by Mr Ernesto Gouveia Gove, Governor of the Bank of Mozambique, on the occasion of the XXXI Consultative Council, Nampula, 26 January 2007.

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Honourable Governor of Nampula Province
Excellency

Honourable President of Nampula City Council
Excellency

Distinct Former Governors of the Banco de Moçambique, Dr. SérgioVieira, Dr. Prakash Ratilal, Dr. Eneas Comiche and Dr. Adriano Maleiane

Dear President of the National Institute of Statistics

Dear Representatives of Niassa Provincial Government

Dear members of the Board of Directors of the BM

Dear representatives of the Financial Institutions

Dear Guests

Ladies and Gentlemen

First of all, I would like to express, on behalf of the Board of Directors and the employees of the Banco de Moçambique and personally, our satisfaction and gratitude for having accepted the invitation for a joint reflection on a current topic of our economy.

Your presence in this conference room is of indubitable meaning, since it shows the sympathy and commitment towards the common problems we face in our country and particularly in the financial system, whose solution overcomes the simple will of each of us.

Allow me to refer in a special way to the presence of the Former Governors of the Banco de Moçambique, personalities whose leadership and competence marked, at its time, the nearly three decades of the history of our institution.

I would also like to take this opportunity also to express the profound regard of the Banco de Moçambique to all the banking institutions that operate in our market, the private and public financial institutions, the public in general and to all the international community, for all the support they have provided to elevate the financial system, contributing to the development of the economy and reduction of absolute poverty in the country.

This is the second day of our XXXI Consultative Council.

In yesterday's session, besides the analysis of the implementation of the Recommendations of the XXX Consultative Council, we analysed the execution of our Strategic Plan, the report on human resources, titled "Balanço Social do Banco" and yet we discussed other important domestic matters, and stressed the relevant role of the colleagues who retired last year.

Ladies and Gentlemen

The recent history regarding the evolution of our financial system shows notable development and growth in terms of the number of institutions, diversification and modernization of products, thanks to the market opening to private financial institutions in the sequence of financial and economic reforms began in the 80's, and which witnessed great move as from 1990. In effect, of a total of three banks and one insurance company that the country had in 1987, currently the number has moved to a total of (12) twelve banks, 11 (eleven) credit cooperatives, 56 (fifty-six) micro-finance institutions, besides 4 (four) insurance and leasing companies and others, as well as a notable implementation of electronic systems of international standards.

However, this development is characterized by a tendency towards the concentration of institutions and financial services in the main cities of the country, situation that became worse with the closing of

some branches in the rural areas, creating within the authorities and in the society in general, a great concern, given that it is in these areas where the majority of our population is concentrated.

In fact, the numbers show that the 228 (two hundred and twenty-eight) bank branches existing in the country only cover 28 (twenty-eight) districts, which means that the remainder 100 (one hundred) districts, which comprise about 79% of the national territory, do not possess any banking representation, in other words, a vast group of people are deprived of financial services.

The disproportions are still more evident if we consider that the three main cities of the country, Maputo, Beira and Nampula, have altogether 132 (one hundred and thirty-two) branches, that is, 58% of the total branches, of which Maputo city, alone, absorbs about 45%.

In Maputo City, for example, each branch serves 11,592 inhabitants, while in Milange and Angoche, the coverage is of 411,267 and 258,594 inhabitants, respectively. Analysing the prevailing situation in another perspective, it is concluded that in Maputo city there is a branch in each 2.85 square kilometres against 15,871 square kilometres in Montepuez and 14,150 square kilometres in Mueda, which shows the long way still to be pursued.

With regard to other kinds of services and financial products, namely ATM's (Automated Teller Machines) and POS (Point of Sale) devices, it is concluded that there are differences provided that they are also concentrated in Maputo (Province and City), as they represent 69% of the total national coverage.

In order to invert the situation, the authorities have devised a number of legal and regulating measures aimed at promoting micro finance, on one side and, on the other side, the establishment of banks through to the areas of the country with minor financial services. Similarly, it is worth referring that the Government, in the context of its Five-Year Term Program, has been undertaking efforts in order to create conditions in terms of infrastructures, namely, roads, bridges, telecommunications and electric power network.

We are conscious that, even though, there are constraints that should be cleared, but this is the real country we have and under which we should work, being necessary to continue seeking innovative ideas in order to face the current and future challenges.

The view that the authorities have about the expansion of financial intermediation is that it cannot only be confined to the physical presence of bank branches in rural areas. It should be done in a broad and integrated way, making use of the advantages offered by the information technology systems. We need to find an adequate combination between the traditional and electronic banking, maximizing the use of products such as ATM's, POS, Internet banking and mobile banking. In this engineering, the mailing services can and should be asked to play an important role as bank correspondents, making savings on their behalf and responsibility and rendering other kind of financial services.

The principal idea is that the financial sector must also associate itself clearly to the efforts of the Government and other economic agents, as well as the society in general, towards the accomplishment of the major objective of creating wealth in order to eradicate poverty in the country.

Ladies and Gentlemen

The objective of expanding banking institutions and financial services through to the rural areas is in line with the Government strategy, which defines district as the pole of planning and development of our economy. We are certain that these two factors will interact contributing towards the same purpose, taking into account that, for the growth of districts, it will be necessary to continue to endow them with financial and human resources as well as infrastructures, similarly important for the financial sector to flourish.

At the micro-finance level, we should stress the valuable contribution given by the authorities through the Micro-finance Support Program, which aims specifically at expanding micro-finance activities through to the rural areas.

There are experiences of countries with characteristics like ours, which confirm to be possible for the financial system to serve as the encouraging factor for development of economic and financially poor regions. Countries like Ghana, Kenya and Nigeria, for instance, can serve, at the level of our continent, as the source of inspiration in the process of promotion and development of micro-finance institutions.

Although the cases of relative failure observed since the 70s until the present days are not at all to be neglected, in the micro-finance domain, however, we have to note that Asia is a continent replete with successful experiences.

With respect to cases of success, three institutions deserve relevance for their contribution in the fight against poverty in their respective countries: The **Bank for Agriculture and Agricultural Cooperatives, (BAAC)**, of Thailand founded in 1966, the “**BRI Unit Desa**” System of the Bank Rakyat of Indonesia (BRI-UD), founded in 1984 and the **Grameen Bank (GB)** of Bangladesh created in 1983, which today hold a portfolio of savers to the tune of 4.4, 14.5 and 2.1 million, respectively.

The history of Grameen Bank is very simple, but very rich in terms of learning aspects. Its founder, Mr Mohammad Yunus, began his activity as money lender, granting loans to 42 poor people who needed an individual amount equivalent to USD 27. That was in this way that everything started for the case, which today is the world reference in the field.

The success obtained in terms of the fight against poverty and the increased potential of business in the areas where he operated, encouraged him to create a rural bank. Besides the information I referred to, recent data pointed out that today the bank employs 18,796 workers, and holds a portfolio of 6.61 million loan beneficiary clients, of which 97% are women and, a network of 2,226 branches.

Mohammad Yunus and the Grammen Bank were awarded the 2006 Peace Nobel Prize, thanks to their devotion to the cause of the more needed population of their country.

It is not possible to ensure social and political stability with high poverty indices the reason why the fight against it is a priority that cannot be postponed. Besides, recognising this fact, the Norwegian Committee of Nobel Prize supported its decision to award the prize in the following terms: “*The long lasting Peace cannot be achieved without opening a way so that a large number of people is poverty free*” end of quotation.

It was considering all the potential financial intermediation for economic growth that, in the present year, we chose for debate in our XXXI Consultative Council the topic: **Bancarização da Economia – Extensão dos Serviços Financeiros para as zonas Rurais**, (Banking the Economy – Expanding Financial Services to the Rural Areas), believing it to be a current matter of national interest and importance for our reality where the district was assumed as the pole of development.

Ladies and Gentlemen

The hosting of our Consultative Council here in Nampula is a sign especially addressed to financial institutions and operators, to show that we should expand our activities beyond the Capital city. And for that reason we are grateful for the presence in this session of the Governor of Nampula Province and other representatives of the north region provinces.

We are conscious that the attainment of the will for greater expansion of financial services throughout the national territory requires the intervention, with appropriate measures, by several interested parts: **the Government, the private sector, and ourselves – Banco de Moçambique!**

Our strategy of reinforcing the level of expansion of banking institutions throughout the country, facilitating and encouraging the enlargement of financial services, had an important landmark with the process already underway, which consists of opening five branches of the Banco de Moçambique in similar number of Provinces.

Until now branches have been inaugurated in Quelimane and Maxixe cities, with plans to open Pemba branch next week. This process will come to the end with the inauguration of branches in Lichinga and Tete by the end of the first semester of 2007.

The Banco de Moçambique territorial expansion is within the performance of its role as central bank, namely, as the authority of the national payment systems, supervisor of institutions, issuing bank, and manager of money circulation. Therefore, we are conscious that the branches will facilitate our mission and will contribute to the (i) reduction of storing costs and transport of banknotes and coins by commercial banks, (ii) intermediation of Government financial operations (iii) deposits and withdrawal of banknotes and coins of the Metical by the banking system, (iv) licensing of foreign exchange operations and (v) support and supervision of micro-finance institutions.

The urgency in expanding banking institutions throughout the country becomes similarly relevant in the context of regional economic integration programs underway within the SADC, as well as in the African continent. The creation of a single SADC central bank, and later an African central bank, will require a sound, modern financial system, with territorial coverage, otherwise institutions of other

member countries of the region will reach this segment of the market rapidly, which is presently ignored by the domestic financial service network.

Ladies and Gentlemen

We are certain that in the current conditions, the enlargement of financial services to less favoured areas of the country, requires the provision of a number of non banking external factors as well as fiscal and non fiscal incentives.

Therefore, bringing into debate a package of measures aimed at encouraging the enlargement of financial services throughout the country, we intend to get contributions from representatives of various transversal areas herein represented so that we can improve further the referred project with the purpose of ensuring the adoption of more effective actions that stimulate investments for the expansion and extension of financial services in Mozambique as quickly as possible, increasing the financial intermediation.

We are not eluded in relation to the challenges we have forward, including in the macroeconomic plan, provided that stability is an essential element for investments in the context of more banking institutions throughout the country to take place effectively.

We ended 2006 with a considerable reduction of inflation and the data we have been monitoring in 2007 suggest the continuous reduction and control of inflation. In the same way, with respect to the trend of the Metical exchange rate in relation to the USD, available data pointed out to a greater stability in 2007, in an environment of greater convergence between the USD rates in different segments of our foreign exchange market.

These data show a scenario that encourages us to review some of the monetary policy instruments managed by the Banco de Moçambique. In this context, during February, we will reduce the Mandatory Reserve rate that the banking institutions should constitute at the Banco de Moçambique, and we will accommodate its regime of constitution in line with our objectives of a major deepening of money market operations and a major financial intermediation in the country.

Ladies and Gentlemen

Before I finish, I would like to express my gratitude to all those who, in a devoted and patriotic way, involved themselves in the process of introduction of the Metical of the New Family, integrating various working committees, or travelling throughout this country from Maputo to Rovuma and from Indico to Zumbo, visiting villages, towns, districts and Provinces, carrying out the heroic mission of informing our population of the importance and objectives behind this process.

The mission is not yet finished, but it is not fairly a lack of modesty if we assert that the process was successful, taking into account similar experiences we have heard of. In this final stage of the process, I would like to urge, particularly, the economic agents involved in the commercialization campaigns, in rural shops and all the institutions whose activity runs in the countryside, to serve as catalyst agents of the exchange process, using banknotes and coins of the Metical of the New Family in all transactions held with the public in order for about 6% to 7% of the remainder former families of the Metical to be changed in short time and within a peaceful environment.

To end, I would like to invite everyone to participate in the debate, in a frank and open way, expressing your opinions and experiences on the challenges of expanding banking institutions and extending financial services through to the rural areas.

Thank you very much.