PROMOTING A RESILIENT AND INCLUSIVE PRIVATE SECTOR IN FRAGILE CONTEXTS - MOZAMBIQUE

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ABOUT INTELLECAP

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ABBREVIATIONS AND ACRONYMS

ADC	Austrian Development Cooperation
AdZ	Zambezi Development Agency
AECF	Africa Enterprise Challenge Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
AIAS	Administração de Infrastrutura de Água e Saneamento
AMBA	Associação Moçambicana de Business Angels
APIEX	Agência Para a Promoção de Investimento e Exportações
ATM	Automated Teller Machine
BAGC	Beira Agricultural Growth Corridor
BCI	Banco Comercial e de Investimentos, S.A.
BIO	Belgian Investment Company for Development Countries
CDB	China Development Bank
CESOM	Central Solar De Mocuba
CFC	Common Fund for Commodities
DANIDA	Danish International Development Agency
DFC	Development Finance Corporation
DFIs	Development Finance Institution
EDM	Electricidade de Moçambique, E.P.
EDP	Energias de Portugal
EIB	European Investment Bank
EoDB	Ease of Doing Business
ESO	Ecosystem Support Organisations
EU	European Union
FASE	Education Sector Support Fund
FCDO	Foreign, Commonwealth and Development Office
FDC	Community Development Foundation
FDI	Foreign Direct Investment
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
FTB	Foreign Trade Bank
GAIN	Global Alliance for Improved Nutrition
GAVI	Global Vaccine Initiative
GDP	Gross Domestic Product
GFF	Global Finance Facility
GFTAM	Global Fund to Fight Tuberculosis and Malaria
GHG	Green House Gases
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPE	Global Partnership for Education
GSMA	Global System for Mobile Communications
HACCP	Hazard Analysis Critical Control Point

ABBREVIATIONS AND ACRONYMS

HIV	Human Immunodeficiency Virus
ICT	Information and Communications Technology
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
ILO	International Labour Organization
IMF	International Monetary Fund
IPEME	Institute for the Promotion of Small and Medium Enterprises
IPPs	Independent Power Producers
ITIS	Institute of Technologies, Innovation and Services
ITU	International Telecommunication Union
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
KFED	Khalifa Fund for Enterprise Development
LNG	Liquefied Natural Gas
MFIs	Microfinance Institutions
MIGA	Multilateral Investment Guarantee Agency
MMR	Maternal Mortality Rates
MNO	Mobile Network Operator
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MW	Megawatt
NCF	Nordic Climate Facility
NFIS	National Financial Inclusion Strategy
NGOs	Non-Governmental Organisation
ODA	Official Development Assistance
PCV	Permanent Capital Vehicle
PEDSA	Plano Estratégico de Desenvolvimento do Sector Agrário
PEPFAR	U.S. President's Emergency Plan for AIDS Relief
PNISA	Programa Nacional de Investimentodo Sector Agrário
POS	Point of Sale
PPA	Power Purchase Agreement
PPP	Public-Private Partnerships
PRONASAR	National Rural Water Supply and Sanitation Program
REGMIFA	Regional MSME Fund for Sub-Saharan Africa
SDG	Sustainable Development Goals
SHS	Solar Home Systems
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
SMS	Short Message Service

ABBREVIATIONS AND ACRONYMS

SNV	Stichting Nederlandse Vrijwilligers
SOLTRAIN	Southern African Solar Thermal Training and Demonstration Initiative
SPV	Special Purpose Vehicle
TC	Tropical Cyclone
TVET	Technical and Vocational Education and Training
UEM	Universidade Eduardo Mondlane
UK	United Kingdom
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
WASH	Water, Sanitation, and Hygiene
WSP	Water and Sanitation Pooled Fund

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EXECUTIVE SUMMARY

More than 16 years of civil war (1977 – 1992) has had a devastating effect on Mozambique's economy and infrastructure. The country has slowly and steadily started to rebuild its economy post-war and its GDP grew at an average rate of more than 7 percent until 2014 – 2015. Post COVID, the country's GDP is expected to gradually increase and rise to more than 10 percent by 2024[1]. The country also has an abundance of oil and natural gas reserves which have propelled foreign investments in the sector.

The debt scandal of 2016 severely dented Mozambique's image in the international investor community. In the wake of the hidden debt crisis, the International Monetary Fund (IMF) in 2016 announced the suspension of its program with Mozambique and categorised the country as being in public debt distress. The G14 group of donors suspended all general budget support in May 2016. FDI in the country plummeted by over 40 percent along with the GDP growth rate. The Mozambican Metical also sharply depreciated against the US Dollar leading to a spike in inflation. The situation has stabilised significantly over the years, primarily due to investments in the oil and gas sector

Mozambique relies heavily on international funding for achieving its development objectives. The country received USD 1.819 billion in Official Development Assistance (ODA) in 2018 which is an 18 percent increase from 2016[2]. United States was the largest donor with USD 514 million, followed by the International Development Agency (IDA) (USD 254 million) and Japan (USD 147 million)[3]. While more than 44 percent of the ODA received has been earmarked for health and population, around 12.53 percent is meant for social infrastructure and services.

Almost all of the stakeholders including investors, donors, eco-system enablers such as incubators, accelerators and NGOs believe development of the private sector holds the potential to catalyse economic growth and increase income levels across the country. The private sector landscape in Mozambique con-tributes to over 65 percent of the GDP and is dominated by in-dividual entrepreneurs (93%) and micro-enterprises (6.6%) with few SMEs (0.02% of total enterprises)[4]. Most of the businesses are established through bootstrapping and funds from friends and family. Access to finance remains one of the foremost chal-lenges faced by entrepreneurs in the country. To gain a more in-depth understanding of the impact-focused private sector in Mozambique and its potential, Intellecap conducted detailed interviews with around 37 enterprises from the country. The study has placed the interviewed enterprises into three broad categories to derive improved insights:

A) Access: These include enterprises that have developed solutions to facilitate access to essential products and services to un/underserved communities. Of the 37 enterprises interviewed, around 69% of them provided access services, while some enterprises such as Paytek Africa are offering solutions to enable financial inclusion of low-income groups. These services are provided in partnership with microfinance institutions enabling digital transactions. Mozambique has one of the highest Maternal Mortality rates (MMR) in the world. Some of the enterprises including Cordão Umbilical are offering pre and post-natal care to women and couples. The enterprise aims to bring back natural birth techniques through its healthcare services, avoiding unnecessary and invasive surgical interventions.

B) Ability: Ability enterprises offer solutions and interventions that improve incomes and purchasing power of low income population by improving their employability and livelihoods. These enterprises leverage multistakeholder partnerships to offer comprehensive services to their customers and focus on supporting other businesses by offering necessary administrative services through the use of technology. Of the 37 enterprises interviewed, around 29% were offering ability services. Enterprises such as Biscate offer technological solutions through a job portal for informal yet skilled workers. Other enterprises including Robobo provide IoT, hardware, software, and other technology solutions to enterprises.

C) Network and Knowledge: Network and knowledge enterprises build awareness and share information to initiate behaviour change and allow communities to connect to unreachable markets. Of the 37 enterprises interviewed, only 3% were part of this category. Many of the investors looking to invest in Mozambique do not have information regarding the rules and regulations and local knowledge of impact enterprises. The enterprises lack an understanding of the global norms of business operations, including governance, documentation, and fundraising. Some enterprises such as SamSara gather all of the information in one place, and then process the data for investors, enter-prises and policymaking.

Detailed discussions with the enterprises highlighted some of the private sector's critical challenges in Mozambique. Access to finance, lack of critical infrastructure including transportation and power, lack of government support, and lack of skilled manpower are the major challenges faced by enterprises in Mozambique. The lending rate for SMEs and agricultural producers is close to 30 percent, which is extremely expensive and prohibitive.

To develop a holistic understanding of the country's impact sector, Intellecap undertook an in-depth analysis of the impact investment landscape as part of the study. The study included detailed interviews with industry stakeholders, including investors and ecosystem enablers. Between 2000 and 2020, Mozambique is estimated to have received USD 3.97 billion in impact capital across 165 deals, from which the majority (81%) was contributed by DFIs.

The study mapped several DFIs, including DFC, IFC, AfDB, Proparco, FMO, AgDevCo, kfW, China Development Bank, GAPI, BIO, Norfund, IFU, and European Infrastructure Bank (EIB). Majority of the DFI investments were made in the energy sector followed by financial services, manufacturing, and agriculture. While most DFIs are sector agnostic, DFIs such as AgDevCo have a particular sector focus and have only invested in the agriculture and fisheries sectors. While majority of investment capital has been invested through provision of political insurance, most of the investment deals have been through debt capital. Many of the DFIs have also invested by blending various investing instruments, including debt, equity, and technical assistance. Blended finance instruments have been greatly utilised by the DFIs operating in Mozambique. There have been 18 investments using blended finance instruments totalling USD 299.8 million with an average deal size of more than 16.7 million. DFIs such as SIDA and DFC have also invested indirectly by providing credit guarantees to banks and financial institutions who on-lend to impact enterprises.

Donors such as USAID, GIZ, SNV, World Bank, SDC, FCDO, European Union and others have invested around USD 134 million between 2005 and 2020. While Mozambique receives a lot of donor support, most of the support in recent years has been towards humanitarian aid due to the advent of natural disasters, including cyclone Idai and cyclone Kenneth. Donors in Mozambique prefer to invest in enterprises which can create the most impact including agriculture, fisheries, healthcare, and clean energy sector enterprises. Most of the donor support has been towards programmatic interventions that support private sector development across multiple sectors by offering technical advisory support, capacity building, and development of enterprise networks. Majority of the donor support has been through provision of technical assistance to impact enterprises. Donor agencies also provide grants to enterprises to help create impact across the country.

Private fund managers including Thirdway Africa, Arise Fund, Source Capital, Beira Agricultural Growth Corridor (BAGC) Catalytic Fund, Common Fund for Commodities, Goodwell Investments, Africa Enterprise Challenge Fund (AECF), Aquaspark and others have invested approximately USD 614 million in the last twenty years in Mozambique. Most of these investments are in agriculture & fisheries, financial services, and energy sectors constituting more than 98 percent of the investments by value. Equity remains a dominant form of investment across these impact sectors, with more than 70 percent of investments in the agriculture and fisheries sector and 90 percent of investments in the energy sector. Some investors have also provided concessional capital (zero percent debt) and innovation grants to agricultural enterprises. Some of the investors have also set up innovative financial structures such as Permanent Capital Vehicles (PCV) to continuously raise capital while simultaneously investing across the country.

Many of the investors have expressed interest in investing for the long-term in Mozambique. Despite increased investor interest, security and political challenges in the northern provinces have derailed some of the significant investments in the oil and gas sector which can be detrimental to the overall investment climate. Other challenges include lack of legal instruments for the creation of funds, government bureaucracy in implementation of laws, and lack of corporate governance procedures. Innovative investment instruments can help reduce the risk of investing in fragile economies such as Mozambique. Many global organisations, DFIs, donors, and private impact investors have already started to find alternative ways of investing in these geographies; some such models are i) offering a guarantee or political risk insurance cover to investors, ii) use of instruments such as mezzanine debt and returnable grant iii) providing concessional capital to financial institutions that provide credit to MSMEs and iv) offering technical assistance to enterprises to build investable pipelines. Direct investments in sectors that can support private sector growth such as Information Communication Technologies (ICT), power, roads and other transport, and Digital Financial Services (DFS) is another indirect way of promoting the private sector in these countries. Intellecap in the study discusses three models that can work in Mozambique's context. These are a) Returnable grants, b) Blended finance with technical assistance, and c) Project financing.

Proposed Model	Description	Pros	Cons	Examples
Returnable Grants	*Grants which are repayable at a zero percent interest rate*	*Investors can evaluate the enterprise for further investments while the enterprise gets access to much needed investment at a low interest rate*	*Can distort the market by providing subsidised finance only to selected enterprises*	*Africa Enterprise Challenge Fund (AECF) loans to Phoenix Seeds in Mozambique*
Blended Finance with Technical Assistance	*Mix of concessional and commercial capital along with funds for techincal assistance*	*Financial institutions can gauge the extent and scale of their operations if they lend to impact enterprises on a long term basis*	*Lengthy and laborious process which involves constant presence on the ground*	*Blended finance for micro enterprises in Cambodia*
Project Financing	*Project finance provides for off-balance sheet financing which does not affect the credit of the shareholders*	*Protects the credit of the shareholders in case of the project failing*	*Administrative complexities coupled with lengthy contracting processes*	*Norfund's investment in Central Solar de Mocuba (CESOM)*

These models have been successfully implemented across the globe and have seen encouraging results. While they might face some limitations including complex structuring along with legal and regulatory challenges, the recommended models overcome the common obstacles for both investors and enterprises.

BACKGROUND AND MOTIVATION OF RESEARCH

To showcase business and investment opportunities in fragile countries, there is a need to bridge the knowledge gap & create an opportunity mapping. There is still very limited information available on the social entrepreneurship ecosystems in fragile countries. More so, in-depth mappings on the various sectors and stakeholders involved are almost non-existent. Through the provision of key data points and insights, this can shed light on the investment opportunities in these countries. Although private sector investments are currently low, their economies are growing and ripe for anyone willing to take the risk to invest. Data aggregation and digitization can go a long way in bridging the information gap and make it easier to create beneficial interventions in these countries.

This research report seeks to provide insights into the current state of the impact investing and entrepreneurship ecosystem in Mozambique and recommendations on impact investment models and ecosystem building strategies to build a resilient and inclusive private sector in Mozambique. The report maps the activities of a diverse pool of impact investors across Mozambique and highlights opportunities to increase the impact of capital flowing into the private sector. It also provides an assessment of the stakeholders requiring social capital, such as social enterprises, and the ecosystem enablers in the social investment sector. This report is one of a series of three focusing on fragile and transition countries in Africa, with the other two being on Sierra Leone and Somalia.

REPORT STRUCTURE

The report is organised in six chapters. In Chapter 1, the report introduces the reader to the context of Mozambique's economy with regard to fragility and conflict. Chapter 2 provides an overview of the private sector in Mozambique and its relevance for the growth of the country. The findings from and case studies of the social enterprises are laid out in Chapter 3. An in-depth examination of the different categories of impact investors active in the region, and their investment strategies and trends are provided in Chapter 4. An assessment of the enabling ecosystem, including regulation and business support services, is provided in Chapter 5. And finally, Chapter 6 provides recommendations and three innovative impact models that can promote a resilient and inclusive private sector in Mozambique.

RESEARCH METHODOLOGY (DATA COLLECTION & ANALYSIS)

The report presents both qualitative and quantitative insights generated from secondary and primary research sources. The study leveraged concurrent triangulation, which is a mixed-method approach involving a collection of qualitative and quantitative information from structured interviews and ongoing secondary research

a) Selection of three fragile countries for research - The research team established a 'selection framework' to identify three fragile economies that will be focused on in this study. The team followed a mix of quantitative and qualitative approaches to identify the target countries for the study. The process began with data collection on various parameters for all 54 countries across Africa. The countries were then filtered and selected based on parameters, including GDP per capita, fragility, and domestic credit to the private sector.

- The first filter in the selection framework was 'GDP per capita', which helped identify the three economically weakest countries in the continent.

- The second filter used was the 'Fragility ranking (OECD)' to identify the countries based on their degree of fragility. The OECD index is a combination of each country's political, societal, economic, environmental, and security situation.

- The third filter applied to the remaining countries was the 'domestic credit to the private sector' (as a percentage of GDP). This parameter highlighted the amount of credit available for the private sector. Domestic credit to the private sector refers to financial resources provided to the private sector by financial entities through loans, equities, trade credits, and accounts receivables. It is crucial for developing the private sector as a lack of financing is often cited as a significant challenge in the ease of doing business in each country.

- The final filter was a qualitative determination, including the level of impact enterprise activity and the need to develop the country's private sector.

Using the above selection framework, the team selected Somalia, Sierra Leone, and Mozambique as three focus countries for this research.

b) Literature review/Desktop Research - Secondary research was undertaken at the onset of the research to (i) provide an understanding of the macroeconomic and demographic context of the focus countries and identify key development gaps/challenges facing these countries, (ii) evaluate existing research on the impact investment industry and outline key research gaps, (iii) demand-side research on the prevalence of entrepreneurs, presence of formal versus informal businesses, women-owned enterprises, gaps in access to capital, and indicators of 'need' (ecosystem support, infrastructure, supportive policies, etc.) and, finally (iv) compile a list of active players at the supply, demand and ecosystem level to be engaged for primary research. The data gathered helped shape the primary research tools e.g., questionnaires and discussion guides. The team also developed ethical and security protocols for fieldwork in each of the selected countries.

c) Stakeholder interviews - Existing work was cross-referenced with primary research to corroborate findings, identify opportunities to ask more profound questions during interviews, or both. The report relies heavily on insights from one-on-one interviews conducted with 49 stakeholders in the country, including impact investors such as DFIs, foundations, donors, and impact investors; demand-side players including the private sector and social enterprises; and ecosystem enablers such as incubators, accelerators, professional service providers/firms, research and academia. These interviews aimed to collect quantitative (investment activity data) and qualitative information on investment deployment strategies of different investors, partnerships established, key challenges facing the investors, and their perception of the country. Further, interviews with the demand side players were conducted to identify critical financial and non-financial needs, while interviews with ecosystem enablers provided insights on the type of support offered to the sector and key gaps in organizational support. Annexure I present a full list of stakeholder interviewed from Mozambique. While the team spoke to most of the investors, donors and ecosystem enablers active in the country, it selected 30 enterprises to be part of the research. These enterprises were selected from various impact sectors, including agriculture, clean energy, healthcare, financial inclusion, etc. Special attention was paid to enterprise selection, ensuring the selected enterprises are of different sizes, providing different type of services, operating across various regions of the country and having women representation in the leadership, to include diverse enterprises that are representative of the private sector in Mozambique and provide an understanding of the overall ecosystem in the country.

d) Impact investment deal mapping - To collect data for the impact investment deals in the country, the research team examined publicly available information, evaluated investor websites, and reviewed press releases. Throughout the report, the research team incorporated highlights from its desk research to complement its primary findings.

The research team synthesized all the information gathered through desktop research and primary interviews to derive country-level insights presented in this report. The research team would like to emphasize that while the data collected is non-exhaustive, it provides sufficient directional guidance for the trends reported in this section.

01

CONTEXT OF MOZAMBIQUE'S ECONOMY – FRAGILITY AND CONFLICT

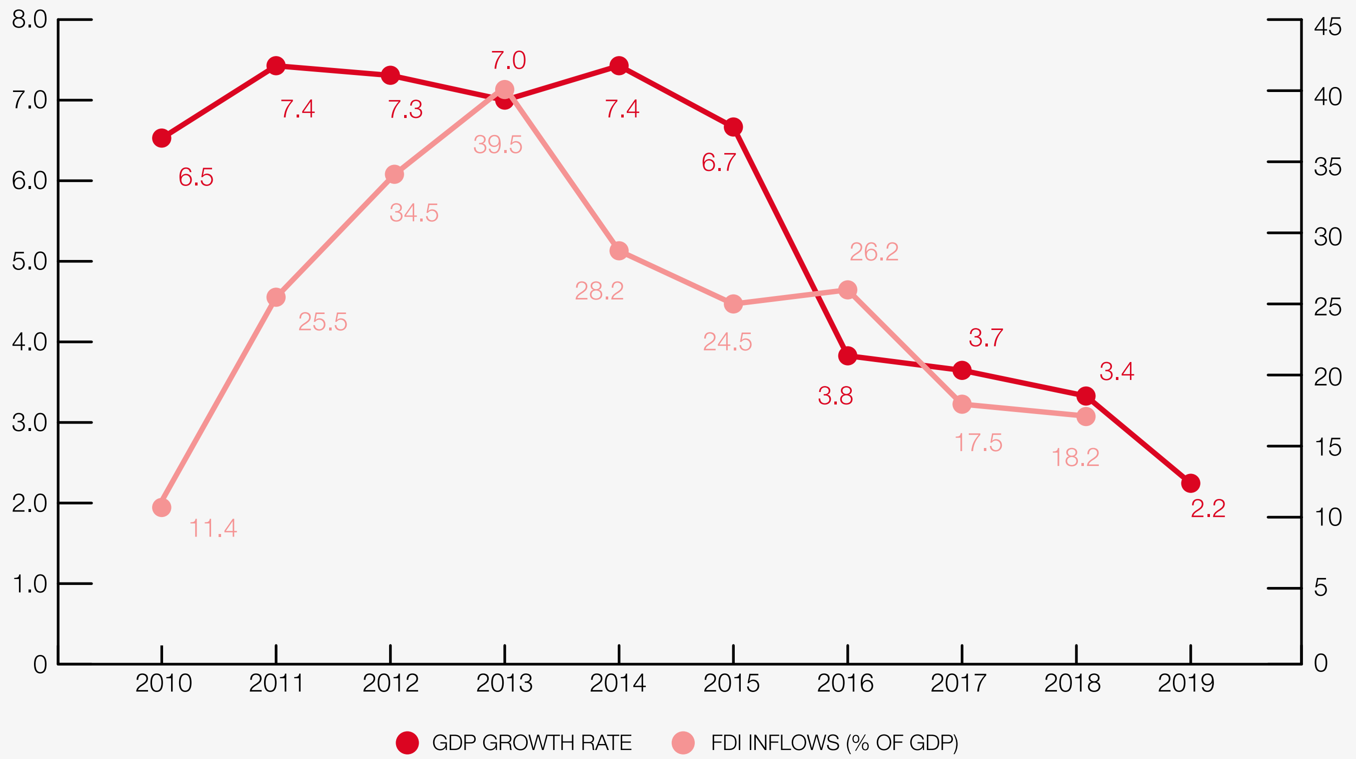
Mozambique was the eighth-most industrialised country in Africa at the time of its independence in 1975. However, the sixteen-year civil war from 1977 to 1992 had a disastrous effect on the economy, with over 39.7 percent[1] of the immobile capital destroyed or damaged, including critical socio-economic infrastructure related to agriculture, water supply, domestic trade, communication, and public administration. There was a 30 percent decline in agricultural production and a 75 percent decline in exports by 1986, majorly due to the destruction of irrigation, transportation, and logistics infrastructure. The civil war also led to more than 25 percent of the population displaced internally and more than 10 percent living as refugees in neighbouring countries[2].

Post-civil war, Mozambique's economy grew at an average growth rate of more than 7 percent over the past decade till 2014-2015 but fell to 3.8 percent in 2016 due to the discovery of the hidden debt scandal in 2016[3]. Other factors contributing to the decrease in GDP growth rates include falling prices of primary raw materials in the international market, depreciation of the metical against significant currencies, and reduction of foreign direct investment (FDI). Mozambique's GDP was also affected by Tropical Cyclone (TC) Idai, which hit the central region and TC Kenneth, which hit the northern province of Cabo Delgado in March and April 2019, respectively.

According to FCDO, while Mozambique's GDP is projected to decline due to the COVID crisis, it is estimated to gradually rise to more than 10 percent by 2024[4], primarily driven by oil and gas discoveries along with the traditional growth sectors of agriculture and infrastructure. There have been several mega projects, including the construction of separate onshore Liquefied Natural Gas (LNG) plants by different consortia led by Anadarko and ExxonMobil, which are valued at over USD 40 billion[5]. According to an estimation, there are around 3 trillion cubic meters in natural gas reserves, making Mozambique the 3rd largest gas exporter in the world after 2020[6], leading to further Foreign Direct Investments (FDI) and drive recovery of market confidence.

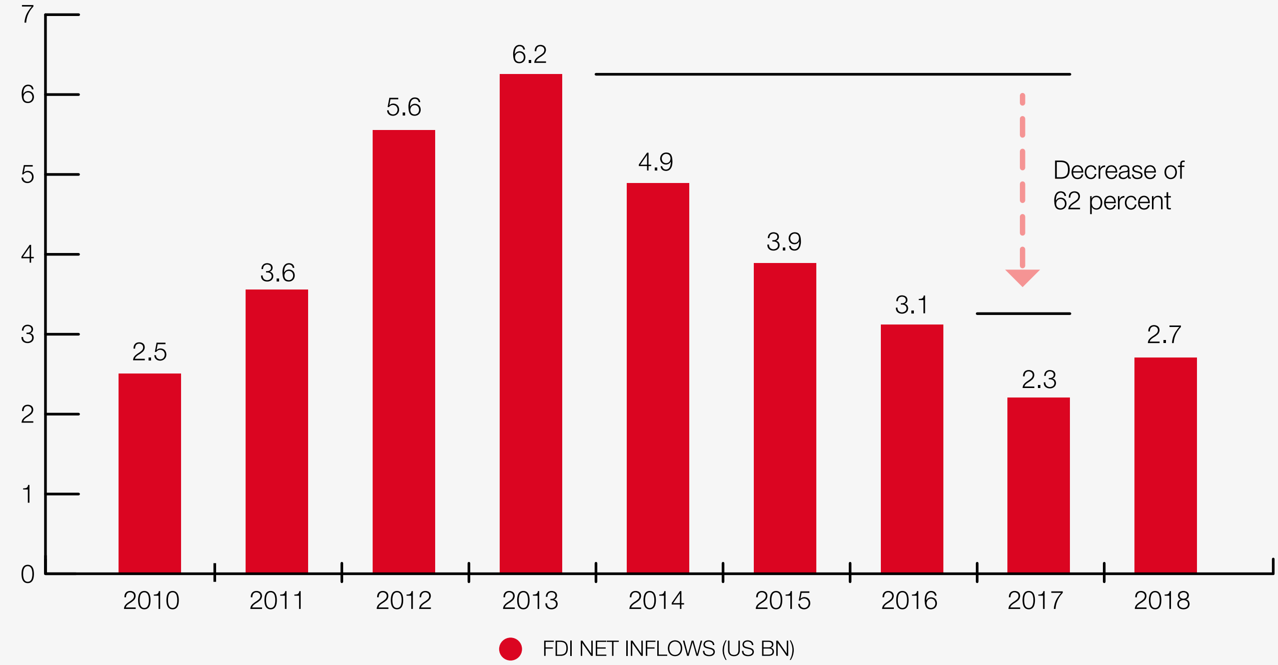
Mozambique was severely affected by the debt scandal in 2016. The discovery of the scandal revealed that certain semi-public entities in Mozambique had taken on debts that were backed by sovereign/government guarantees without submitting them to the Mozambique Assembly as required by the country's constitution. These loans, amounting to over USD 2 billion, were secured through European banks and bond markets and were meant for establishing tuna fishing and maritime security business[8]. The International Monetary Fund (IMF) in 2016 announced the suspension of its program with Mozambique and categorised the country as being in public debt distress. The G14 group of donors suspended all general budget support in May 2016.

Figure 1: GDP Growth rate and FDI inflows (as % of GDP)[7]



Source: World Bank

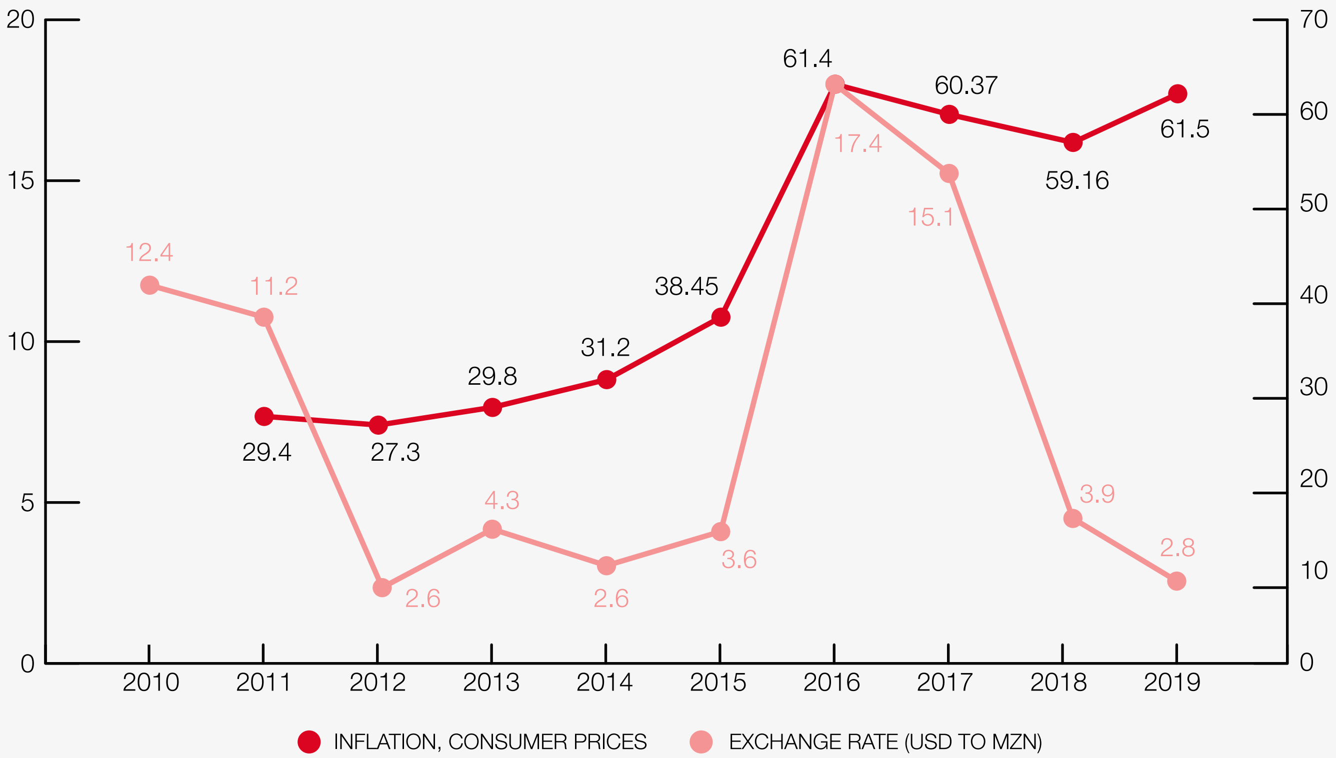
Figure 2: Advantages of a coherent Private Sector in Somalia[9]



In the wake of the hidden debt crisis, FDI in the country plummeted by over 40 percent along with the GDP growth rate. Foreign grants fell to less than USD 200 million in 2016, down from USD 700 million in 2014[10]. The Mozambican Metical also sharply depreciated against the US Dollar leading to a spike in inflation. The situation has stabilised significantly over the years, primarily due to investments in the oil and gas sector and government policy interventions to enable private sector growth. The central bank also implemented a restrictive monetary policy to contain inflation and to stabilise the Metical.

Mozambique has made considerable progress towards achieving gender equality. The country passed laws and regulations for women, ran campaigns to raise awareness of

Figure 3: Inflation rate in Mozambique[11]



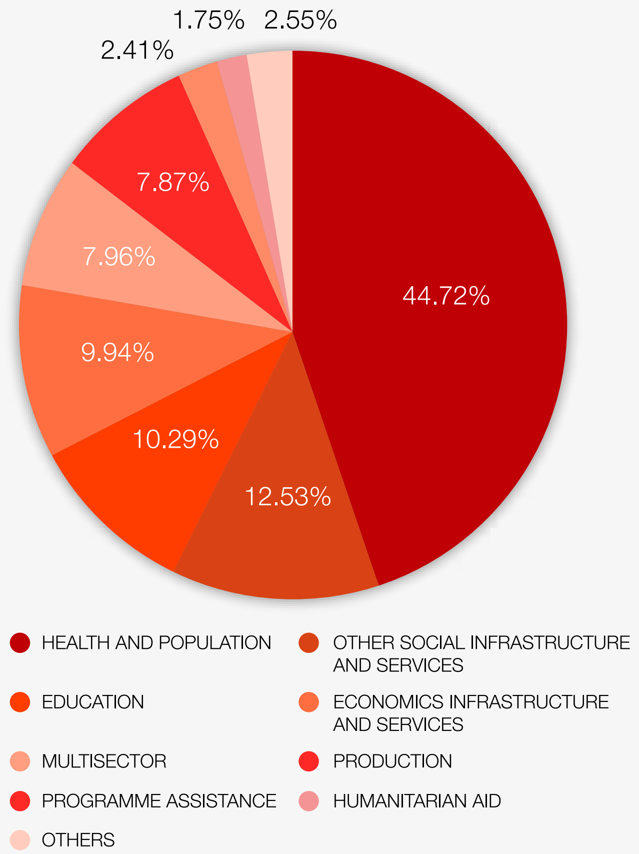
Source: World Bank

women's rights, and promoted gender parity in education. As a result, the proportion of women in leadership positions has increased, with over 42 percent of women in parliament (2020), the 5th highest in Africa and 16th highest globally[12]. Almost half (49.5 percent) of the informal firms and a quarter (24.2 percent) of the formal firms are owned by women[13]. The country has also received development assistance from multiple global players to increase women's participation and promote gender equality in employment and business ownership. The Khalifa Fund for Enterprise Development (KFED) has recently pledged a USD 25 million Memorandum of Understanding (MoU) to support innovation and entrepreneurship projects for women and youth by investing in more than 4800 projects, which will generate more than 11,000 jobs[14].

Mozambique relies heavily on international funding for achieving its development objectives. The country received USD 1.819 billion in Official Development Assistance (ODA) in 2018, an 18 percent increase from 2016[15]. United States was the largest donor with USD 514 million, followed by the International Development Agency (IDA) (USD 254 million) and Japan (USD 147 million)[16]. More than 44 percent of the ODA received has been earmarked for health and population, while 12.53 percent is for social infrastructure and services.

Progress on attaining the SDG goals has been slow in Mozambique. The country ranks 140 out of 193 countries in progress towards achieving all 17 SDGs. While the country has launched the Agenda 2030 for Sustainable Development, progress has been slow due to various factors, including the hidden debt crisis, cyclones Idai and Kenneth and the Covid-19 crisis. While the country is on track/maintaining SDG achievement in SDG 8 (Decent work and economic growth) and SDG 14 (Climate action), it is decreasing in SDG 9 (Industry, innovation, and infrastructure). The country is moderately improving or stagnating in other SDGs[17]. The private sector within the country also emphasises achieving the SDG goals, as per the voluntary national review conducted in 2020. Nine out of ten entrepreneurs consider sustainability necessary for the success of their business[18].

Figure 4: ODA spending across various sectors



02

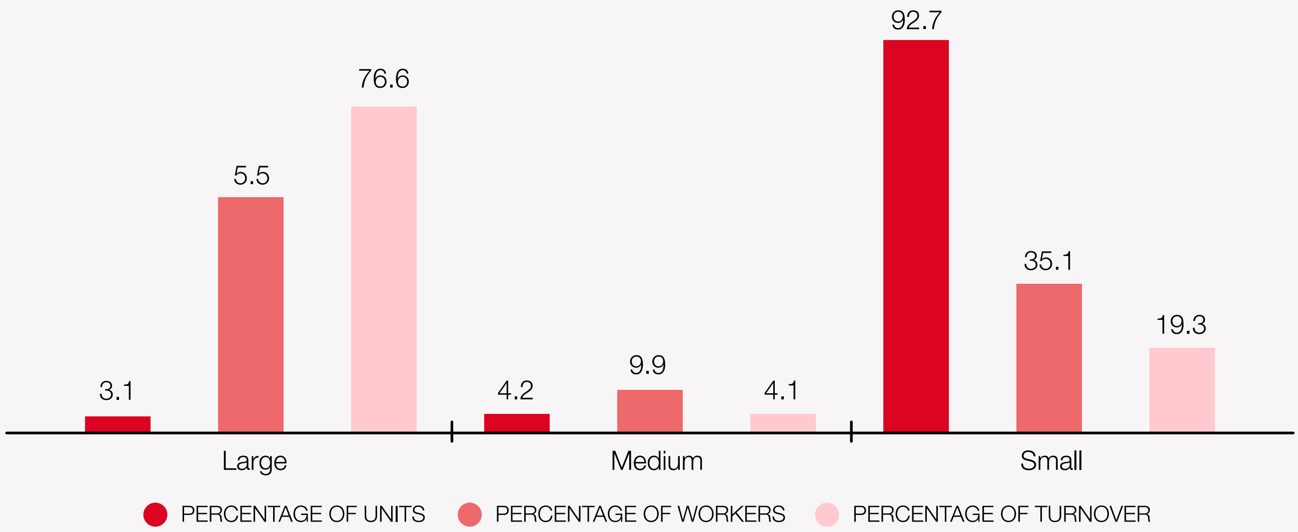
THE LANDSCAPE OF THE PRIVATE SECTOR IN MOZAMBIQUE AND ITS RELEVANCE FOR THE GROWTH OF THE COUNTRY

The private sector in Mozambique contributes to over 65% of the country's GDP, mainly dominated by individual entrepreneurs (93%) and micro-enterprises (6.6%) with few SMEs (0.02% of total enterprises)[19]***.*** The enterprises are characterised by low productivity and low value-addition, primarily in agriculture and manufacturing. Agricultural enterprises face challenges such as high logistics costs and inadequate access to electricity; manufacturing businesses face difficulties due to low access to energy, inefficient ports, and costly business environments (tax, corruption, administrative costs, etc.)[20]. However, investments in private sector SMEs have created more jobs in comparison to investments in megaprojects. Over the period 1992 – 2010, FDI directed towards SMEs created 19 times more employment than the 70 percent FDI in megaprojects[21].

State-owned enterprises dominate the entrepreneurial landscape of the country. Despite the massive privatisation program carried out by the Government of Mozambique in the 1980s and 1990s, public enterprises continue to dominate the country's business landscape. Though large companies constitute only 3.1 percent of total enterprises, they employ more than 55 percent of the workforce and contribute to more than 76 percent of the country's turnover[22].

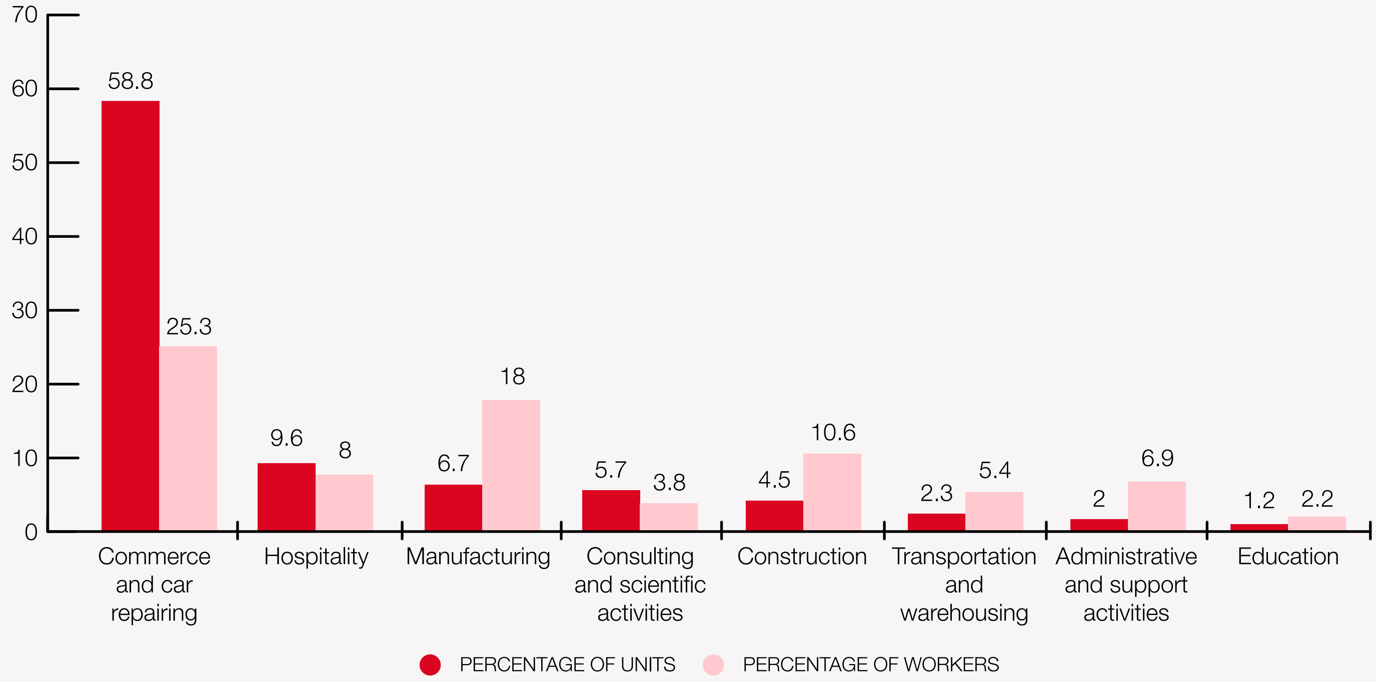
The majority of the enterprises in Mozambique are engaged in commerce, followed by hospitality and manufacturing. While the manufacturing sector constitutes only 6.7 percent[24] of all Mozambican enterprises, they employ more than 18 percent of the total formal workforce and are an important sector to reduce unemployment. The agriculture sector is responsible for 80 percent of employment (formal and informal) despite its modest share in GDP.

Figure 5: Enterprise categorisation by size, workers, and percentage of turnover[23]



Source: World Bank

Figure 6: Enterprise and employment categories (not including agriculture) (2014-15)[25]



Source: World Bank

Between 2002 and 2015, formal employment in Mozambique improved drastically and almost doubled; interestingly, much of this expansion happened in the non-extractive private sector. However, post-2015, the growth was obstructed by challenges such as the debt crisis, thus putting pressure on the labour market. In 2019, Mozambique had a labour participation rate of 78.1 percent[26]. While the figure is higher than the average of low-income countries (71 percent)[27], it is lower than its high of 85.7 percent in 2003.

The ease of doing business indicators measures the support/ challenges for the private sector to operate formally in a country. According to The World Bank's 'Ease of Doing Business' indicator, Mozambique is behind its peers in 'ease of starting a business'. While the country ranks 135 out of 190 countries in ease of doing business, the World Bank estimates that it can jump 22 places to 113[28] if it adopts 'good' practices.

Women have high employment rates in Mozambique, indicating that women are active participants in the labour market. The trend is exceptionally high for women between the ages of 15 and 24 (2017). However, this aspect, when studied in tandem with low female enrolment (11%[29]) at the secondary level, may indicate compulsive employment. Almost half of the informal enterprises (49.5%) are owned by women, with less than a quarter (24.2%) of women ownership in the formal sector[30].

Table 1: Employment-to-population ratio, Age and Gender Distribution, ILO[31]

Gender	Age: Total (15+) and Youth (15-24)	Mozambique	Sub Saharan Africa
Men	Total	60%	71%
	Youth	41%	51%
Women	Total	63%	59%
	Youth	47%	45%
Total	Total	62%	65%
	Youth	44%	48%

Despite its economic growth, Mozambique has not translated its development into increased employment opportunitie. In 2020, UNDP estimated the unemployment rates to be around 20 percent[32], with one-third of these being youths between 20-25 years of age. Given the high population growth rate of nearly 3 percent p.a., it is estimated that around 300,000[33] additions to the labour market each year remain unemployed. Initial estimates suggest that the country's unemployment rate might rise by as much as 7-10 percent[34] due to the coronavirus pandemic.

Against this background, the private sector has the potential to support economic recovery. Mozambique's SME segment that provides two-thirds[36] of its employment can play a crucial role in improving Mozambique's livelihoods. However, lack of access to affordable capital and governance challenges majorly constrain the sector. SIDA in 2019 estimated that almost 75 percent[37] of MSME owners were financially excluded. While the government has reduced some of the barriers and processes to pay taxes, many of the stakeholders still described the process as overly complicated, costly, lengthy, and highlighted the difficulty of complying with regulations. These challenges are graver for women entrepreneurs due to the lack of gendered policies.

Table 2: Key employment indicators (% of employment), World Bank (2020)[35]

Series Name	Female (%)	Male (%)	Total (%)
Wages and Salaried Workers	5.9	24.0	14.7
Vulnerable Employment	92.7	72.5	82.9
Youth Unemployment	6.3	7.3	6.8
Total Unemployment	3.3	3.1	3.2
Total Self-employed	94.1	76.0	85.3
Employment in Agriculture	81.5	60.6	71.3
Employment in Industry	2.6	13.8	8.1
Employment in Services	15.9	25.6	20.6

Discussed below are some of the country's critical impact sectors and their business activity.

AGRICULTURE

Agriculture is the second largest sector in the economy and is one of the vital industries providing employment. However, for more than a decade, the sector's employment has consistently been declining and currently (2020) stands at around 70 percent[38], of which 80 percent[39] are women. More number of people are shifting to other sectors, such as services from the agriculture sector. The shift is concerning since the employment increase in services (18.3 percent in 2010 to 21.5 percent[40] in 2020) is not accompanied by an improvement in its productivity[41]. Low production and productivity levels characterise the agriculture sector's performance due to various challenges such as extreme variabilities in climate, access to quality inputs and technologies, poor market linkages, and lack of extension and research services. So far, the private sector has made modest contributions to the agriculture sector, with the most participation in traditional activities. Besides, about 95% of the country's agricultural production is by 3.2 million[42] smallholder farmers (from 3.9 million farming households). The second largest group of private actors in agriculture comprises of agri-traders that primarily operate at a small scale. The third category of private actors is agro-processors involved in contract farming models. The investments in the private sector in agriculture have also seen a shift from small scale focused to large scale by investors such as AgDevCo and Norfund[43]. By improving private sector participation, the sector can improve poverty and income level as well as nutrition in the country. The World Bank Froup in 2019 launched the Strategy for Expanding the Role of the Private Sector in Transforming Mozambique's Agrarian Sector (SERPS). The strategy proposes multiple recommendations to strengthen the role of the private sector across the agricultural value chain. Governments' Plano Estratégico de Desenvolvimento do Sector Agrário (PEDSA) or Strategic Plan for Agricultural Sector Development, and Programa Nacional de Investimentodo Sector Agrário (PNISA) or National Agricultural Investment Plan lays out the strategies for the sector and highlights the importance of the private sector. [Refer to chapter 5 for details on the policy].

FINANCIAL SERVICES

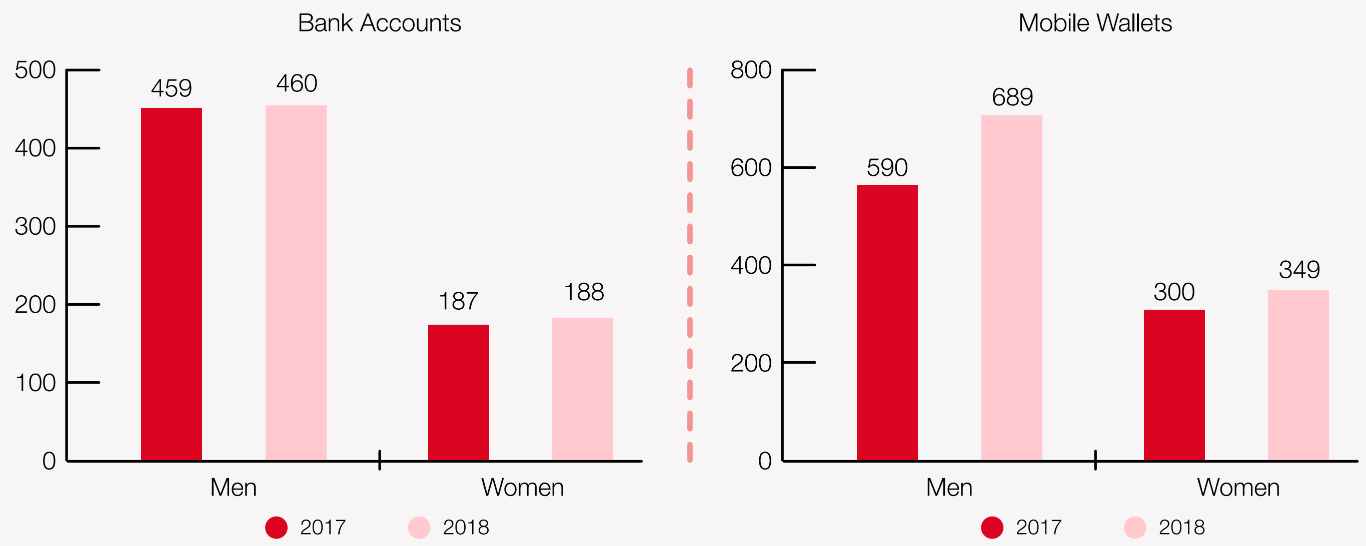
Although access to formal financial services has improved from 2005 to 2018, it is still significantly low, with only 10% of the total population (28 million) having a bank account. The access point to financial services, i.e., physical place where financial transactions can be carried out such as withdrawals and deposits such as bank branches, banking agents, electronic currency institutions, ATMs, and POSs (point of sale), has increased drastically from 2005 to 2018. However, a high percentage of these access points were concentrated in urban areas, particularly Maputo City, despite around 66.6 percent of the total population residing in rural areas. Moreover, there is a dearth of products and services that meet the needs of consumers with low financial access, such as smallholder farmers, low-income families in urban and semi-urban localities, and SMEs. Access to finance is particularly challenging for women due to gendered norms creating barriers. Women-owned businesses are primarily concentrated in the small and medium enterprise (SME) sector. However, financial institutions and national policies supporting SMEs do not make special provisions for women-owned enterprises' credit needs[44].

Financial inclusion remains a significant challenge in Mozambique. There are 19 commercial banks in Mozambique (as of 2018)[45]. Almost all of the banks are subsidiaries of foreign banks, primarily from Portugal and South Africa. The three largest banks, controlling more than 72 percent of assets, dominate the banking sector. The average commercial bank lending rates are more than 27 percent which is excessively high for most private sectors[46]. Domestic credit to the private sector (as a percentage of GDP) was low, 23 percent (2018), which is less than half of Sub Saharan Africa's average of 48 percent and showcases the country's lack of finance availability[47]. The percentage of the population with access to bank accounts in 2018 remained low at 33 percent. Still, growth in mobile-money (51 percent) accounts showed promising progress towards increasing financial access for large population sections[48]. Since 2015, while bank account ownership has grown by eight percent annually, mobile wallet ownership has grown by more than 23 percent annually. More than 75 percent of micro, small, and medium enterprises are also financially excluded, particularly in rural areas. Mozambique has the third-largest gender gap in Sub-Saharan Africa in terms of account ownership, with only 19 percent of women owning a bank account compared with 46 percent of men.

One of the critical challenges faced by enterprises and individuals in Mozambique is the lack of documents for opening a bank account. Only 58 percent of individuals have a national ID, and fewer have the national tax ID (NUIT) that banks require[50]. Customers in rural regions need to travel to district towns or major cities to obtain these IDs. They often lack birth certificates and other essential documents necessary to procure these IDs, and as a result, cash still remains the preferred medium of exchange. Also, there is no full interoperability among banks and mobile-money operators, which reduces the banking system's utility and efficiency.

Fintech plays an essential role in equitable inclusion, especially of the financially excluded citizens and for Mozambique's financial systems' overall development. In 2018, of the total mobile subscribers (14 million), 3.3% were using mobile banking services. Innovation and evolution of financial services through mobile platforms such as M-Pesa, M-Kesh, and e-Mola are key fac-

Figure 4: Number of bank accounts and mobile wallets per 1,000 men and women[49]



Source: World Bank

tors contributing to the segment's growth. The segment's ability to penetrate areas where banks cannot reach is another reason for its growth. However, governance compliance requirement is one of the critical challenges faced by fintech in Mozambique.

The government has launched multiple policies and strategies to strengthen financial inclusion in the country. The National Financial Inclusion Strategy (NFIS) (2016-2022) aims at improving access to formal finance that can improve the overall economy from an economic and social standpoint. The strategy aimed to expand and diversify the network from a financial services access point, improve legal and regulatory frameworks, develop products for SMEs, low income and rural population, increase awareness about financial literacy among individuals and institutions, and improve credit infrastructure. A special focus is also laid on digital financial initiatives. NFIS is working with FSDMoç, the World Bank and the Bank of Mozambique to increase access to financial services throughout Mozambique by 2022. With this agenda, FSDMoç and the Bank of Mozambique launched the Sandbox Incubator for Financial technologies in 2018. So far, FSDMoç has engaged with more than 40 fintechs[51]. According to the World Bank assessment in 2019, in the first phase (2016-18) of the NFIS, access to mobile accounts increased by 7%, and access to physical banks declined by 3%[52]. In 2019, a fintech association[53] was also formed to support financial inclusion through policy advocacy and supporting enterprises in the segment. The government also introduced new legislation to support and strengthen credit infrastructure with the Private Credit Information Law and Secured Transactions and Collateral Registry Law. However, much advancement in regulations and laws are required to improve financial inclusion.

ENERGY

Mozambique has emerged as a regional energy hub owing to its rich conventional and renewable resources. Currently, the country has 7.5 GW of renewable energy potential with a current installed capacity of hydro (56%) and thermal (42%), indicating a substantial contribution of baseload renewable energy. Energy access rates vary considerably from urban, peri-urban to rural areas in provinces. Additionally, the rise in population has outgrown the pace at which households are connected to the grid. These dynamics suggest significant challenges for Electricidade de Moçambique, E.P. (EDM), a state-owned company, to fulfil its national unity drive through the electric grid. In January 2019, the Mozambican Government approved an "Integrated Electricity Master Plan 2018–2043" to increase the country's capacity to generate, consume, and export electricity. To achieve its targets, the government would increase its capacity to approximately 100 MW per year[54]. Both the government and EDM have forged various partnerships to reach the target. It also allows foreign investors to avail of incentives and benefits under the 'investment certificate' scheme.

The private sector has played a vital role in electricity generation since 2014. Post the commissioning of a new generation capacity of 415 MW in 2014, around 76 percent[55] has been developed by independent power producers (IPPs) with a power purchase agreement (PPA) signed with EDM. Private solar companies dominate the off-grid market that offers standalone products. Additionally, most of the segment's suppliers are informal without business registration and tax payments to the government. Also, the distribution network is limited to urban areas with limited reach to rural areas. Further, the products are considered unaffordable by most of the rural population. Thus, there is a need to develop affordable grid solutions such as mini-grids with innovative financing techniques for Solar Home Systems (SHSs) while creating space for public and private players.

HEALTHCARE

Mozambique faces a complex set of public health challenges, including widespread HIV rates (12.4 in 2019)[56], high incidence of infant mortality rates (55 per 1,000 live births, 2019)[57] and maternal mortality rates (289 per 100,000 live births, 2018)[58]. The country also has an extreme shortage of skilled health staff that attend to only about 54 percent of the deliveries[59]. Most of the citizens receive healthcare through a network of community-based public services. The cyclones Idai and Kenneth that hit Mozambique in 2019 had an acute effect on the public health systems, especially in rural areas. Incidences of cholera and polio were reported in the affected areas soon after the cyclones.

While the Government of Mozambique has allocated nine percent of the state budget's overall volume in 2019[60], the international donor community is highly crucial for the development of the healthcare sector in Mozambique. Some of the significant donors include the Global Finance Facility (GFF), Global Fund to Fight Tuberculosis and Malaria (GFTAM), the Global Vaccine Initiative (GAVI) and the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), among others. International donors fund almost half of the Mozambican public health system's total health expenditures and contribute a higher level of funds than the Government of Mozambique does[61].

EDUCATION

Mozambique lags significantly in the development of the education sector. There are currently only 0.1 secondary schools and 1.2 classrooms per 1000 children aged 10 to 19 in Mozambique. Nearly 40 percent of schools do not have proper toilet facilities, and at least 30 percent don't have access to water. More than one-third of students drop out before Grade 3, and less than half complete primary education, well below the SSA average[62]. Financial constraints and school-associated costs, distance to school, and poor school infrastructure and materials are the main factors associated with high dropout and low attainment.

There is also a significant gender gap in education across the country. More than half of the women are illiterate in comparison to 27 percent of men. Women, on average, have only 1.4 years of schooling, which is two years below the average of men (3.4 years), which is also very low[63]. Lack of teachers is also a significant cause of concern in the country. While the number of teachers doubled from 60,000 in 2004 to 136,000 in 2018, the average pupil-teacher ratio (64) in primary education is exceptionally high. The pupil-teacher ratio across the northern provinces of Mozambique is 70, indicating a lack of qualified teachers.

The advent of Covid has had a disastrous effect on the education sector in Mozambique. While most countries have switched to remote learning, it has proved very difficult in Mozambique. More than 74 percent of children live without electricity, and only 2 percent have access to internet facilities[64]. The Government of Mozambique has prioritised the education sector and has been allocating 19 percent of total government expenditure and nearly 6 percent of GDP for the education sector since 2008[65]. Two-thirds of the budget has been allocated to basic education (primary and secondary. The Education Sector Support Fund (FASE), which is funded by nine partners, including the Global Partnership for Education (GPE) and the World Bank, has allocated on an average USD 100 million every year since 2012[66] to fund the non-salary expenditure of the education sector in the country including funds for textbooks, schools' grants programs, teacher training, supervision and school construction

WATER AND SANITATION (WASH)

The Water, Sanitation, and Hygiene (WASH) needs of Mozambique are significant. It is estimated that only 56 percent of the Mozambican population, 84 percent of urban households, and 40 percent of rural households have access to at least basic water service. The sanitation scenario is also grim, with only 29 percent of the population having access to basic sanitation facilities, while open defecation rates were as high as 27 percent[67]. Rural areas have a higher rate of open defecation at around 50 percent among the poor majority. There is also a significant disparity in the availability of WASH facilities based on household income levels. While the national water coverage for the wealthiest population is above 80 percent, it is below 30 percent for the poorest inhabitants.

The Government of Mozambique has taken steps to improve WASH coverage across the country. The government created the Water and Sanitation Infrastructure Administration (AIAS-Administração de Infrastrutura de Água e Saneamento) in 2009 to expand the water supply management of the public secondary water supply systems in 130 small cities and towns, and public wastewater and drainage systems in 152 cities and towns across the country[68]. In 2010, the National Rural Water Supply and Sanitation Program (PRONASAR) was developed as the government's primary implementation modality and has since been jointly implemented by various partners. The National Strategy for Development (2015 – 2035) formulated by the government envisages increasing access to basic water and sanitation services by 2035. Mozambique's government has also formulated the Action Plan for the Implementation of the Sustainable Development Goals (SDG's) in the Water Supply and Sanitation Sector 2015-2030. This action plan aims to end open defecation by 2025, achieve universal access to basic drinking water, sanitation, and hygiene services, for households, schools, and health facilities, and increase household access to safely managed drinking water and sanitation services by 50 percent.

03

THE LANDSCAPE OF SOCIAL ENTERPRISES IN MOZAMBIQUE

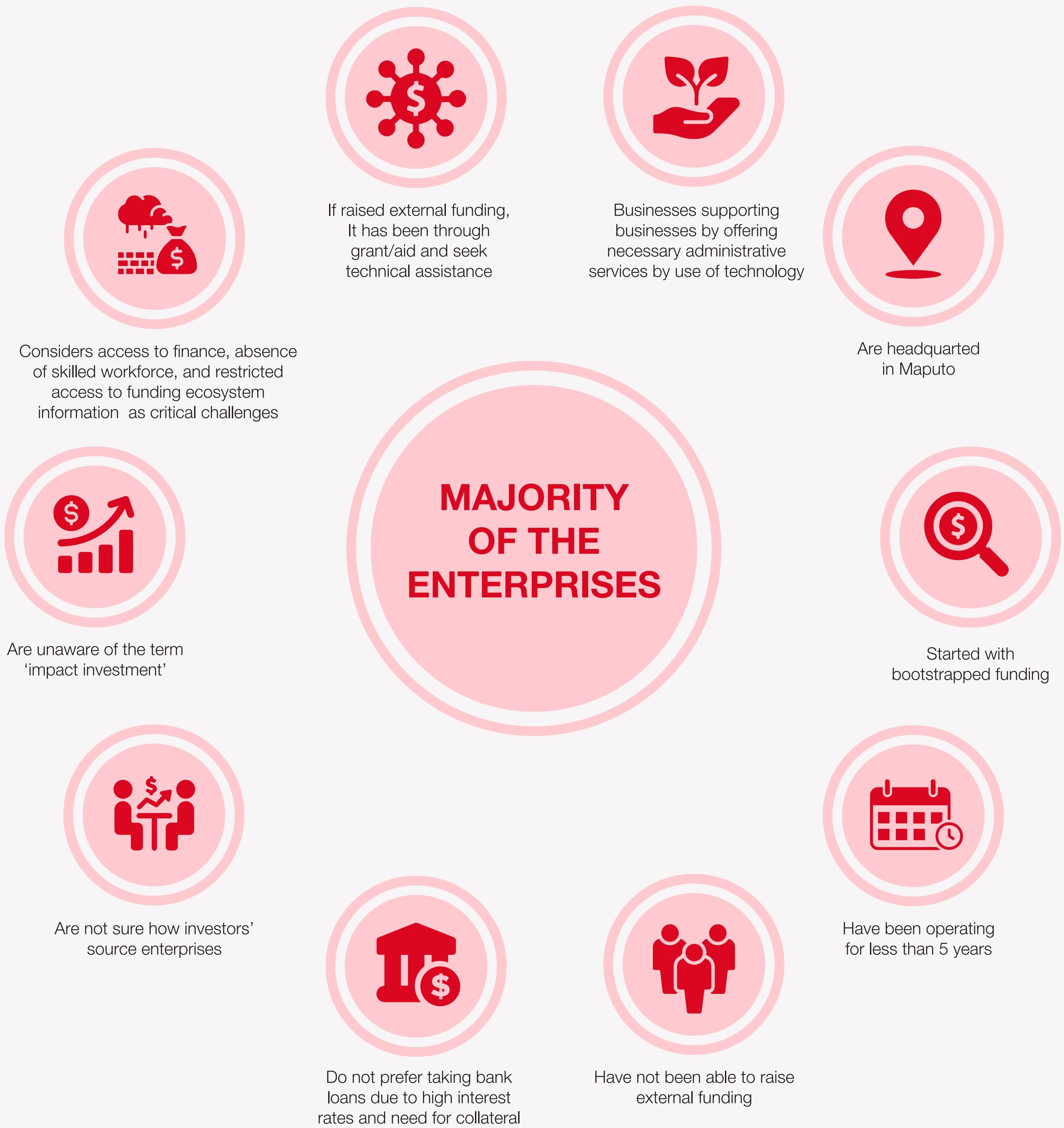
This chapter covers the Social Enterprise landscape in Mozambique and analyses emerging business models in the country – categorised under access, ability, and network and knowledge levers based on their product/service offering. The section also covers detailed case studies of a few impact enterprises and demand-side challenges of attracting impact capital. The insights and learnings presented in the section are based on both secondary research and discussions with around 32 impact enterprises from various regions of Mozambique regions across multiple sectors and of various sizes.

CHARACTERISTICS OF THE SOCIAL ENTERPRISES THAT PARTICIPATED IN THE STUDY

The entrepreneurship landscape in Mozambique has grown steadily over the years. Many opportunistic businesses address the challenges and gaps that were and are caused by past and ongoing conflicts. ***The majority of the enterprises (66%) interviewed were operational for five years or less in Mozambique.*** Although some enterprises started to research and pilot earlier, they formally registered their business a year or two later. As an exception, one of the enterprises that was part of the study was established in 2010 in the UK and only formally established its headquarters in Mozambique in 2016.

Around 31% of the interviewed enterprises are small and

Figure 7: Summary of enterprise analysis: Majority of the enterprises from the sample (N=32)



Source: Intellecap Analysis

micro, with less than ten employees. About 9% had more than 20 employees, primarily from sectors including agriculture and trading businesses. For relatively larger enterprises (more than 20 employees), either of the following is true: (i) has been in operation for more than ten years or (ii) operate through dis-aggregated distribution model, requiring it to hire multiple local staff to reach the last mile.

Around 66% of the total interviewed enterprises were located in Maputo. However, about 13% of the total enterprises are headquartered in Maputo while having operations in other provinces or are planning to expand soon. The enterprises part of the survey were operating in provinces including Nampula, Zambezia, Sofala, Inhambane, and Gaza.

Operational challenges of the private sector are severe for enterprises owned/led by women. Almost half (53%) of the total number of enterprises that participated in the study were either woman-owned or had women in top management. Access to credit, technology, access to information, and trained staff are common challenges for such enterprises. Most of these enterprises were micro or small and were, in most cases, not formally registered.

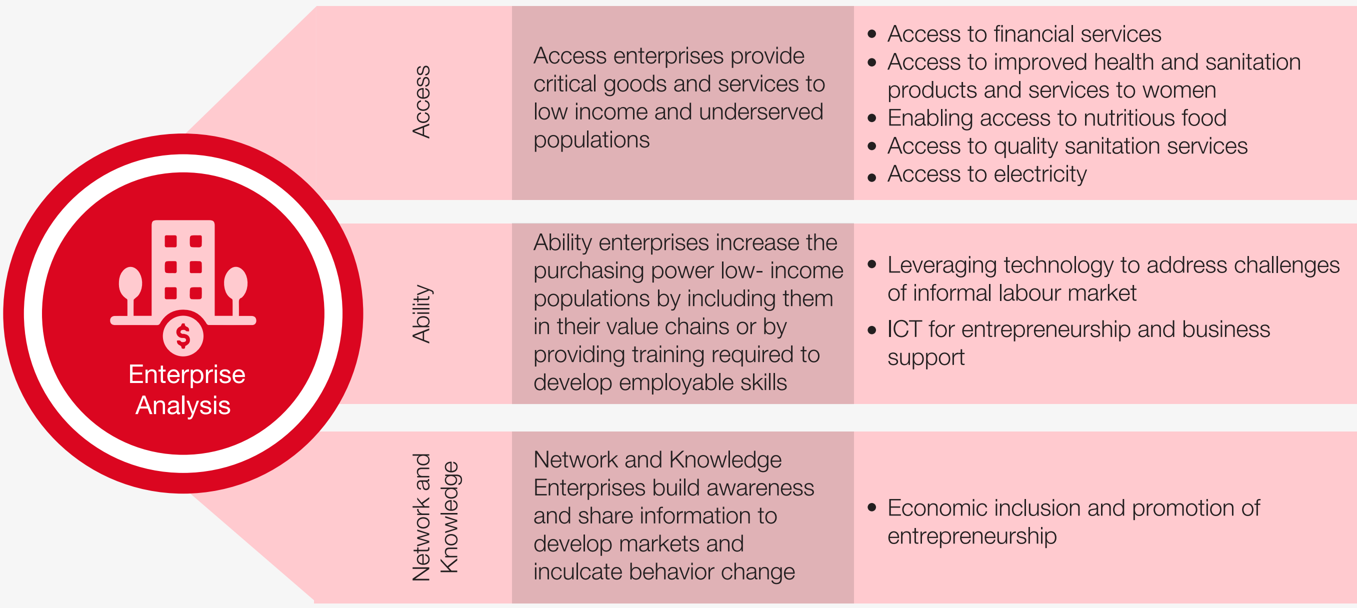
A large number of enterprises (81%) were bootstrapped and are now seeking financial support externally. Most of the surveyed enterprises started their entrepreneurial journey by borrowing money from family and friends. Many enterprises (78%) denied borrowing or even considering borrowing from banks primarily due to high-interest rates and the need for collateral. The study observed a high level of scepticism amongst the majority of these enterprises. The apparent perception that banks mostly prefer large/medium enterprises for such services also held back businesses from approaching banks. A complex evaluation process requiring extensive documentation and paperwork led by bureaucracy is another discouraging aspect.

Lack of information about available funding and investors kept more than half (56%) of the sample enterprises from raising funding from external sources. From those who managed to raise investments, almost 71% received grants either by participating in design challenges or through sector-focused programmes encouraging local startups. Also, from the total sample, a large number (59%) of enterprises were unaware of the term impact investment and had limited information about the impact investment landscape and agencies present in the country. This has also restricted many businesses from being able to expand and scale their operations. The revenue of the enterprises part of the survey ranged from almost USD 2,000 to over USD 30,00,000 annually.

DEEP-DIVE ASSESSMENT OF SOCIAL ENTERPRISES BUSINESS MODELS

The enterprises interviewed as part of the study are analysed based on their approach to solving the country's pressing needs, including a) Enabling access, b) Improving ability, and c) Facilitating networks and knowledge.

Figure 8: Levers of enterprise models in Mozambique

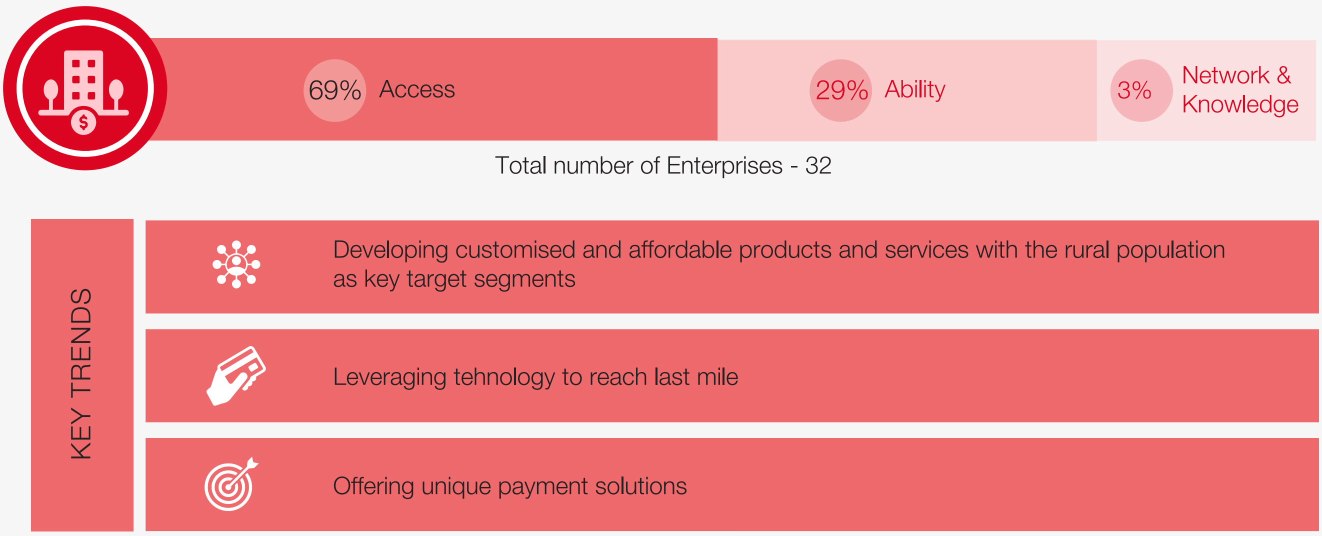


Source: Intellecap Analysis

1. ACCESS ENTERPRISES

The majority of the interviewed enterprises offer solutions that facilitate access to essential products and services to un/underserved communities. Most enterprises aim to overcome whitespaces in access to basic facilities such as water, sanitation, health, and energy. Some of the access enterprises interviewed include Hyfe, offering digital healthcare services targeting rural areas; Wamina, providing access to sustainable menstrual products and working with NGOs and other organisations to make them available to girls and women who cannot afford them; and Epsilon Energy Solar, offering solar home systems on a PAYGO model.

Figure 9: Key trends of Ability enterprises in Mozambique



Source: Intellecap Analysis

ACCESS TO FINANCIAL SERVICES

The 2017 Financial Inclusion Report indicates that from the total population with access to financial services, 33% have physical access (banks), and 44%[69] have mobile money accounts. Although by the end of 2015, the country had around 18 banks, 11 micro-banks and seven credit unions, three electronic money institutions, 12 savings and loan organisations, 802[70] microfinance operators, the financial sector was dominated by three large banks. These banks lacked services and products that can cater to the needs of the poor. Access to transaction accounts[71], especially for women and for the poorest, was the lowest in the country[72]. In 2017, only about 40% of adults and about 27%[73] of the poorest had access to transaction accounts. Enterprises such as Paytek Africa are offering solutions to enable financial inclusion of low-income groups. The enterprise, in partnership with Microfinance Institution, enables digital transaction account for this population. Most of these micro banks are not digitally equipped, thus limiting their reach. Paytek Africa helps these banks in digital integration allowing the low-income population to transact digitally, enabling payment of electricity bills, mobile recharge, payment for TV cable, etc.

Another enterprise, Luzacredito, offers customised financial products to its customers. The enterprise provides small-sized loans for individuals and small businesses. The company has a community savings programme through which customers save money and Luzacredito then offers loans to women enterprises at market prevalent interest rates. The company has grown organically and has over 500 clients. eKutiva, a technology service provider, through its Quick-e-Pay service, allows customers to pay and receive money through a digital platform without having to travel to banks physically. Having an association with banks and e-wallet providers enables the enterprise to offer services to customers holding bank accounts in any institute. Robobo also provides a similar service through its Paga-Lu application. These applications mainly aim to reduce many financial transactions' difficulties and include many financial deals into the formal economy.

CASE STUDY 1: PAYTEK AFRICA

Description:

Established in 2018, PAYTEK is a new Mozambican fintech that operates as a payment services aggregator. It was one of the first few companies that applied for a mobile money license after the government passed the digital banking law in 2019. It offers digital payment solutions and value-added services for individuals and provides an integrated access platform for companies. Its e-wallet, i-Mali, allows users to use their bank account (and/or other mobile wallets) for payments in a faster and easy way. The company's objective is to improve the country's electronic payment culture, shifting it from a cash-based economy.

Operating Model:

The enterprise has three main products: i) for the low-income population, ii) high-end value-added services, and iii) customers for micro-finance. To serve the first and third segment of customers, the enterprise has forged a partnership with a microfinance bank. Most of the MFIs serving the low-income groups are not digitally integrated. Paytek helps such banks to digitise their services to improve their reach and enable easy monitoring of the borrowers. In association with the MFIs, Paytek also facilitates small and microloans for this income group.

The e-wallet, i-Mali, targets customers in the second category. The product is integrated with banks and service providers that offer the user a unique interface for making merchant payments through QR Codes and P2P transfers. It also allows users to pay for utility services such as airtime, electricity, TV subscriptions, and make payments such as university fees. The platform encourages digital payments by rewarding users through loyalty programs. i-Mali is also used in closed digital ecosystems such as education institutes (universities). It is currently operating in the Universidade Eduardo Mondlane (UEM) Campus in Maputo. It targets to reach 40,000 users, including students, teachers, workers and merchants, to pay for all services inside the campus.

Financial Sustainability:

Although Paytek was bootstrapped until now, the enterprise is in the process of securing funds from a global fintech player.

Challenges:

One of the enterprise's critical challenges is receiving funding in foreign currency since half of the money invested is converted into Meticals; additionally, investors have to pay 30% tax while repatriating their money, discouraging investors. Also, given the nascency of digital banking regulation, the enterprise faces challenges such as high license fee, cumbersome process, among others. According to Paytek it is challenging to raise external private finance due to instability in the country that discourages investors.

Impact:

The company is still in the pilot stage and is working on its proof of concept with the Central Bank. It has not yet launched its product in the market.

Road Ahead:

The enterprise in 5 years aims to reach 1.2-2 million digital accounts.

CASE STUDY 2: eKUTIVA

Description:

Established in the year 2016, eKutiva Solutions is a technology company offering digital solutions and software products. The three products offered by the company include i) Quick-e-Pay, a payment aggregation solution, ii) eKuSchool, a digital school management solution, iii) Musuuruko (meaning money, in Portuguese) a digital billing service for small and medium enterprises. The enterprise operates primarily in the Maputo district and is planning to expand to Nampula shortly. Apart from these products, the enterprise also offers website and mobile-based application development services.

Operating Model:

Quick-e-Pay: The payment aggregation platform allows users to make or receive payments in real-time, overcoming the challenge of physically travelling to a bank for even small transactions. It also overcomes the challenge of loss from currency conversion when traded through e-wallets; this is true for many foreign e-wallets operational in the country. The enterprise has a per transaction service charge through which it earns its revenue.

eKuSchool: The enterprise offers cloud-based systems for schools to store and manage data. It also provides school management software solutions in a package. The enterprise charges schools based on the number of active students on the platform. The cost for each student is less than a dollar. It also charges schools for each financial transaction through the platform. eKutiva is in the process of partnering with an association of schools and universities to reach more customers for the application.

Musuuruko: The product offers a simple billing and invoicing system and is being provided for free to local MSMEs to collect data that the enterprise can later use to design specific payment solutions for this segment.

Financial Sustainability:

In the year 2019, eKutiva was in the post-revenue stage. Most of the revenue generated is from the sale of the eKuSchool platform with which the company can cover most of its administrative and personnel expenses. eKutiva' s Quick-e-Pay solution was part of The Sandbox Project for the Fintech sector in the country and received a grant from FSDMoc as part of the project. It is currently seeking support of USD 50,000 that needs to be paid to the central government to obtain a digital banking license. Apart from this, the enterprise has been funded by the founder's capital and has not raised funding from investors.

Challenges:

Quick-e-pay: 1) User literacy: Although the regulator supports the enterprise ecosystem in fintech, there is a considerable gap from the demand side. Many customers are either unaware of digital financial instruments or are sceptical about using them due to limited understanding. This challenge limits the growth of the enterprise 2) Absence of required ecosystem: The digital financial ecosystem, for instance, access to smartphones and access to the internet is still underdeveloped, limiting the application's reach, 3) Risks: Lack of awareness amongst the users and underdeveloped legal and regulatory landscape increases the risk of fraudulent activities.

eKuSchool: Although the enterprise conducted pilots in 17 public schools, the acceptance for digital technology solutions through this segment is limited. Most school administrations are sceptical about data misuse, given that it is stored in the cloud. Further, the debt scandal forced the enterprise to withdraw its associations with most public schools as per the mandate. Such events have negatively affected the growth of the enterprise. There is also a lack of trust for newer businesses, and many customers are willing to work with experienced players despite their limitations.
Overall, the enterprise faces challenges in raising finance-while in some cases, it is because of high cost; in other cases, the ongoing conflict discourages many interested investors.

Impact:

Until 2020, Quick-e-pay had about 3000 active users, eKuSchool had about 20 corporate customers, and Musuuruko also had about 20 clients.

Road Ahead:

In the medium and long term, the company plans to expand its services and add other types of payment solutions so that "the user has convenience in making any type of payment regardless of the channel …".

ACCESS TO IMPROVED HEALTH AND SANITATION PRODUCTS AND SERVICES TO WOMEN

Maternal mortality rates (MMR) in Mozambique are among the world's highest, and are thus a substantial negative factor. Although the country has made significant progress, there remains a gap in access to high-quality healthcare services. As an indicator of progress, the maternal mortality rate reduced from 798 per 100,000 births in 2000 to 289[74] in 2017. Further, the percentage of births attended by a skilled health professional (doctor, nurse, midwife) increased from 49% in 2000 to 72%[75] in 2017. Also, almost 55%[76] of the deliveries were in healthcare facilities. Further, an increasing number of pregnant women in resource-limited areas can deliver in healthcare facilities.

Despite the apparent progress, maternal mortality in the country remains high. The high rates are primarily because of many clinics' sub-optimal performance resulting in inadequate diagnosis, inadequate pre-post care and attention. Until 2015, only 28%[77] of newborns had contact with a healthcare provider within two days of delivery. Having realised the challenge, Cordão Umbilical, a healthcare social enterprise, is offering pre and post-natal care to women and couples. The enterprise aims to bring back natural birth techniques through its healthcare services, avoiding unnecessary and invasive surgical interventions. It offers its clients' a course of about 1 to 3 months depending on their need. The enterprise is in the process of partnering with a strategic location/real estate provider to offer integrated services. It is mainly bootstrapped and is unaware of grants and other sources of funds. One of the critical challenges faced by the enterprise is to raising finance. So far, it has been unable to borrow from banks owing to their high interest rates, making it unsustainable for a small enterprise like theirs.

Apart from maternal health, women in the country also face challenges concerning sanitary hygiene. Women and girls are particularly affected by poor sanitation and water access. Around 53%[78] of the total female population is mensurating, thus needing sanitation and affordable hygiene products. Wamina, a social enterprise, aims to address the challenges of access to sanitary and hygiene products by women. The enterprise distributes reusable sanitary napkins for women and girls, even in areas affected by conflict and war. To ensure smooth distribution to the last mile in the most remote locations, Wamina partners with NGOs and private corporates with the required network.

CASE STUDY 3: WAMINA

Description:

Wamina was established in the year 2016. It distributes reusable sanitary napkins and conducts sexual education workshops.

Operating Model:

The enterprise imports reusable pads from Asia (China) and distributes them in the country. Given the limited demand, it is economically unviable to manufacture pads within Mozambique. The enterprise follows a micro-franchising model in partnership with NGOs and corporates for its distribution. Lack of skilled labour is one of the critical reasons for the adoption of this distribution strategy. The target customers for enterprise products are rural women who are otherwise unable to afford pads on a monthly basis.

Financial Sustainability:

The enterprise is in the post-revenue stage. Although it has not raised private capital, it has raised grant funding through design challenges. Wamina, in 2019, initiated conversations with an investor to raise around USD 250,000. However, the enterprise did not pursue the deal further due to 'unclear' terms of investment.

Challenges:

Wamina faces enormous challenges in clearing customs while importing products from Asia. The sudden change in rules hampers smooth movement and results in high cost for the enterprise alongside the existing burden of paying bribes. Currently, the enterprise is heavily dependent on sales to NGOs; this puts it at risk of losing business due to constantly depleting funding to NGOs. Wamina has not raised finance from any bank due to high interest rates.

Impact:

Until 2020, more than 35,000 Wamina reusable pads have been distributed, more than 110,000 girls have received Wamina Menstrual Kits, and more than 6,000 students have attended comprehensive sexual education workshops.

Road Ahead:

Wamina is planning to start retail sales of its reusable sanitary pads in Europe. This is because the country is more sensitive to environmental issues and has a huge potential demand market.

ENABLING ACCESS TO NUTRITIOUS FOOD

Mozambique is a low-income food-deficit country with a large proportion of rural population, 63%[79] of the total 14.10 million (2019). In 2019, almost 43%[80] of the children between the age of six months and less than five years were chronically malnourished (stunted), with 46%[81] of these children being from rural areas. Almost 3,000 children under the age of five were being treated for acute malnutrition, and around 4,000[82] cases of pellagra (vitamin B3 deficiency) were recorded since May 2019. Stunting levels are exceptionally high in the northern provinces, such as Nampula province (55%) compared with Maputo (23%)[83]. High levels of stunting in early life impact children's academic performance, and ultimately their quality of life through to adulthood. The conflict in provinces such as Caba Delgado has aggravated the issue. Between May and October 2020, around 400,000[84] individuals are estimated to have been displaced from Cabo Delgado and moved towards Nampula, Niassa and Zambézia provinces. Such movements have been the key reason for acute malnutrition in the host provinces.

Winnua, a social enterprise based out of Zambézia, has been working since 2012 to address this particular challenge. Winnua operates a processing facility for soymilk and fortified maize flour, targeting the low-income population. Winnua uses locally produced raw materials, including soy and maize, to manufacture nutrient-rich porridge by combining soybeans, fortified soymilk, and maize flour and supplies it to schools through its 'school feeding programs'. The programme has been recognised and ranked amongst the world's best programmes in preventing malnutrition amongst children. The Commercial Investment Bank (BCI) of Mozambique supported the programme that started with 335 children in 2015 having now reached over 2,000[85] children. The enterprise also sells individual packets of processed products (soymilk and maize flour) to suppliers and buyers through an offtake agreement ensuring an assured market. Winnua is in the post-revenue stage.

However, in light of the recent pandemic, the company has been struggling to stay afloat and laid off 25% of its staff (32 employees). In October 2020, the Global Alliance for Improved Nutrition (GAIN) supported the organisation through the pandemic by offering it a grant fund (amount undisclosed). Apart from the recent funding support, it had also secured loan and invoice financing from a bank at a 16% rate. In 2018, the enterprise also partnered with the InnovAgro project[86] by the Swiss Agency for Development and Cooperation and DAI. As part of the partnership, it received funding of around USD 9,656 (Winnua's contribution was of USD 47,774)[87] for various activities such as the purchase of maize, exploration of Hazard Analysis Critical Control Point (HACCP) certification, the introduction of digital scales and technologies, among others. The enterprise is now seeking to raise USD 1 million[88] for expanding its processing facilities for soy and sesame. The enterprise also deals in teak wood products and is in the process of raising investment from a Portuguese investor. The enterprise's few challenges include corruption, bureaucracy, lack of information and market data from formal sources, etc. Winnua has created a significant impact in the nutrition space by supporting school children and its own staff by providing them with a soymilk glass each day as part of meals. By working with maize farmers, the enterprise can also support the otherwise subsistence farmers by offering them better prices and an assured market. These farmers that were already struggling to cope with damages from two years of drought were severely hit during the ongoing pandemic.

ACCESS TO QUALITY SANITATION SERVICES

Urban waste management is a growing concern in Mozambique, primarily led by waste generation from informal settlement areas. Maputo is a prime metropolitan area with quite a prominent waste management issue, with almost 70% of the total population of 1.2 million[89] residing in informal settlements. The capital city officially produces 1,100 metric tons of garbage every day; however, according to an article in SAGE journal, it is also argued that this figure is just 50%[90] of the actual number. Irresponsible dumping of solid waste significantly contributes to greenhouse gas (GHG) emissions, primarily from uncontrolled landfills. Lack of political will and state funds resulting in sub-optimal infrastructure are considered to be the root causes of the problem. Private players in the sector are trying to address the missing gap. For instance, 3R - Reduzir, Reusar e Reciclar Limitada, a waste management and recycling enterprise, offers waste management services to medium and large organisations in various sectors such as oil and gas, beverages, ports and railways, tourism, and embassies. It also supports NGOs and micro-enterprises to establish eco-points: waste collection units. It operates in cities such as Beira, Maputo, Matola and Vilanculos.

CASE STUDY 4: 3R REDUZIR, REUSAR E RECICLAR LIMITADA

Description:

3R - Reduzir, Reusar e Reciclar Limitada began its operations in 2015, intending to reduce the amount of waste sent to landfills. It develops an infrastructure solution to enable circularity in waste management and works with the government and other relevant private partners

Operating Model:

3R operates only in urban areas collecting waste from medium and large companies. It also pre-processes waste and offers recyclable waste to processors. It supports micro-enterprises in setting up eco-points, a place for receiving/buying recyclable materials. It partners with NGOs and other similar organisations to operate these secondary waste collection points.

Financial Sustainability:

So far, 3R has been able to fund its operations through its business revenue and funding support of grants and loans. Most of the funds raised are from The Nordic Climate Facility (NCF) and the Africa Enterprise Challenge Fund (AECF-REACT). In 2020, 3R also received funds from IUCN to establish four ecopoints in Vilanculos where 3R can collect plastic waste materials at cost from waste pickers, micro-enterprises, residents and organisations. It is estimated that the funds will be utilised to hire Ecopoint staff, purchase equipment, build local capacity and create awareness amongst waste generators on waste sorting.

Challenges:

Mozambique has been trying to build regulations for solid waste, such as Decree 94/2014 Regulation on Solid Waste Management and Regulation on Extended Liability of the Producer and Importer of Packaging (2017). However, the implementation and enforcement of these policies have been a critical challenge. Additionally, formal businesses face challenges to purchasing recyclable materials directly from waste pickers due to the unviable tax sphere. Further lack of financial access to support the sustainable treatment of waste makes it even more difficult for a business to sustain itself in the sector. Lack of skilled labour is another critical challenge faced by the company affecting its growth.

Impact:

The enterprise is currently present in Beira, Maputo, Matola and Vilanculos, serving almost 80 clients. It has nearly 1,500 recyclable waste pickers and 20 ecopoints.

Road Ahead:

3R is investigating the possibility of investing in a PET recycling plant and is also considering establishing a waste treatment infrastructure to support the development of waste processing in Cabo Delgado. It has already started interactions with several strategic investors for the above plans. Apart from these plans, it is also looking to digitalise service, monitoring, and exchange at ecopoints.

In Mozambique, around 14.8 million[91] of the population lives without access to clean water. Only about 29% of the total population has access to essential sanitation services, of which 52% is from urban areas, and 17%[92] is from rural areas. Meanwhile, the basic sanitation coverage in urban areas increased from 32% in 2000 to 52% in 2017[93]; but the gap between the richest and poorest increased by 30 points during the period. A report by ReliefWeb (2018) estimated that three out of four people[94] (rural) did not have access to decent toilets. Consequentially, around 38% of the rural population defecated in the open, making diarrhoea and water-borne diseases all too common. Susamati, a social enterprise, is working towards providing better sanitation facilities to the rural poor at affordable prices. Through an innovative toilet, the enterprise can significantly reduce the water needed for draining. Along with offering cheaper sanitation solutions, the enterprise also conducts awareness campaigns on the importance of health, hygiene and their relationship with the environment. The enterprise is currently operating in Maputo and plans to expand its operations to other provinces.

CASE STUDY 5: SUSAMATI

Description:
Established in the year 2018, Susamati is an impact-focused enterprise aiming to improve access to better sanitation services for the semi-urban and rural population.

Operating Model:
The enterprise builds innovative toilets called 'Pia Fantastica' that use only a glass of water for each flush. The innovation is combined with black soldier fly larvae inoculated in the pit that feed on faecal sludge, reducing the need for emptying. The enterprise sells these innovative toilets in the open market, sells to NGOs, educational institutes, and undertakes installation programmes as part of development projects. It also trains individuals with the aim to develop micro-enterprises that can sell the product.

Financial Sustainability:
The enterprise is largely bootstrapped with small amounts of grant money between USD 50,000-100,000 from DFIs, donors, and NGOs. Although an international investor displayed an interest in investing in Susamati, their minimum ticket size was USD 1 million that the enterprise was not ready to absorb.

Challenges:
There is limited awareness about the need to shift from open defecation, primarily due to the government's low priority; this increases the cost of awareness before project implementation. Additionally, in many cases, the projects fail to receive financial support after their management is transferred to the government post project completion by the donor/DFI. Due to a lack of government support, such projects usually fail after initial years of success.
The scarcity of skilled labour is yet another issue according to the enterprise. Few other governance-related challenges for the business include no separate recognition or legal framework for social enterprises and a highly complex and expensive process of registration.

Impact:
Until 2020, it had sold around 450 toilets in the open market, and approximately 20 women and five men have started their micro-business after getting training by the enterprise.

Road Ahead:
In the near future, Susamati aims to partner with more DFIs through contracts and expand its services to other countries.

ACCESS TO ELECTRICITY

Mozambique has a vast untapped potential for power generation with a total installed capacity of around 2,827 MW [95] (2020) from hydro, coal, gas, wind and solar resources. Despite this, only about 29%[96] (2020) of the population has access to electricity primarily due to the transmission and distribution-related limitations. Of this, only about 15% of the rural and 57% of the urban population has access leaving around 4.1 million[97] people without power. Many districts in the country depend heavily on non-renewable and unreliable sources of energy, including diesel generators. In addition, about 30.6 million[98] hectares of forest lands is the primary source of biomass, such as wood fuel and charcoal, which are crucial sources of energy for almost 80%[99] of the country's households. These figures are even higher in remote rural areas. One of the most challenging aspects of energy access is that an overwhelming majority of rural households, schools, health centres and administrative posts have no electricity access. This has not only affected the social wellbeing of many individuals but also affected their economic progress. Lack of electricity access severely hampers the economy's growth, especially the rural economy, by restricting local opportunities for income-generating activities.

Nonetheless, many rural households spend a considerable share of their income on modern energy in the form of kerosene or batteries (USD 5–6 per month[100]). The country witnessed the emergence of many private players that offer solar systems for energy access. However, most solar product distributors were informal with no business registration and provided poor product quality. The presence of inferior quality products affected the customers' perception of standalone solar products. This trend shifted the focus towards Solar Home Systems (SHSs) that can provide a greater service level, including multiple lights, phone charging, and radio capability, among others. Private impact enterprises such as Solar Works! and Epsilon Energy aim to address the energy access challenge through their products and services. The two enterprises are the only ones in the country that offer PAYGO payment options to their users. The model allows a flexible payment system to its customers, making it the best fit for the rural population. Until March 2019, PAYGO providers in Mozambique were serving about 15,500[101] customers.

CASE STUDY 6: SOLARWORKS!

Description:

SolarWorks! offers solar home solutions in small categories, including lights and mobile-charging capability and bigger systems category that can power televisions, refrigerators, fans, sound systems and sewing machines. Although it was established in 2010 in Johannesburg (South Africa), the enterprise started its operations in Mozambique in 2016. It also currently has operations in Malawi.

Operating Model:

SolarWorks! sells solar home systems that are a package of solar panels and batteries used for various purposes. The packages differ in size based on the need and can include products such as TV, radio, refrigerator. The enterprise mainly distributes its products through distributors and retailers. While they have exclusive distributors in some areas, they operate through a franchise model in most other areas. Almost about 30-40% of the total distributors are on the enterprise's payrolls, while the rest are on a contract basis.

Financial Sustainability:

The enterprise has adopted the Pay-as-you-go model wherein buyers initially pay a certain amount of deposit, and the rest is paid 'per-use' of the product over time. Since its inception in 2009, it has raised money from various sources such as angel and impact investors. Some of the investors include Persistent Energy (venture capital firm) and EDPR, a renewable arm of Energias de Portugal (EDP) (fourth-largest generator of wind energy globally). The company has also raised debt funding from Sun-Funder and ElectrFI, primarily used to purchase stock. Finally, the company has been the recipient of several grants in both of its countries of operation from donors such as GIZ and USAID.

Challenges:

Although many countries in Africa have removed import duty on solar products, Mozambique still imposes those, affecting the final product price. High import duty is one of the critical challenges for the enterprise. The enterprise also struggles to transport and travel across different regions in the country, given its size. The challenge is multiplied owing to the high cost of travel and poor road infrastructure. Lastly, a significant part of enterprise operations is based on mobile money. Although there has been considerable progress in this aspect, mobile money penetration is still low given such businesses' requirement.

Impact:

The enterprise until 2020 had installed around 40,000 systems in Mozambique and 4,000 in Malawi.

Road Ahead:

In the coming years, SolarWorks! plans to expand its product offering, especially for larger systems and appliances, and focusing more on the productive use segment, selling products and devices that allow customers to increase their income. The company will roll out water pumps and cooling solutions for bars or fishery communities. Eventually, SolarWorks! envisages becoming the leading PAYGO-solutions provider in the Southern African region.

CASE STUDY 7: EPSILON ENERGY SOLAR

Description:
Epsilon Energy was established in 2017 and is involved in distributing and financing solar home systems (SHS). The business model combines last-mile distribution, connected equipment, mobile money and effective credit management to deliver a Pay-As-You-Go service to bottom of the pyramid households. The enterprise operates in the Manica province of the country and targets the rural off-grid population.

Operating Model:
The enterprise operates through a Pay-as-You-Go (PAYGO) model. By integrating mobile money into solar home systems through technology, Epsilon offers multiple financing options to the customer. After paying an initial deposit, customers can choose to pay the balance amount through mobile money on a three month, six months or 12 month payment cycle.

The enterprise sells its products through a network of local community, government, and commercial organisations. The enterprise also invests in engaging with the customers to explain how the PAYGO model works and describes available financial payment options.

Financial Sustainability:
The venture is backed by local investors Epsilon Investimentos, Mozambique's largest domestic NGO, FSDMoc, and Kevin Kennedy, an experienced PAYGO investor and manager. It has also raised a USD 300,000 concessional loan from KfW and Banco Comercial e de Investimentos, S.A. (BCI, a commercial bank in Mozambique).

Challenges:
One of the enterprise's critical challenges is a weak investment ecosystem led by inadequate infrastructure and uncertain security concerns. Further high VAT and import duty on solar products also affect the final product's prices to the end consumers. Additionally, the high cost of capital and collateral requirement is one of the enterprise's main constraints to borrow from banks.

Impact:
Until 2020, the enterprise had reached 2000 customers.

ENABLING SMALLHOLDER FARMERS ACCESS TO BETTER INPUTS AND MARKET

Although one of its dominant sectors, Mozambique's agricultural sector faces tremendous challenges and displays enormous growth and improvement potential. Despite arable land representing 63.5% of the total land area, only 7%[102] of this land was under cultivation until 2018. The country also suffers from low productivity issues given that majority of its farmers face challenges such as limited technical know-how, lack of processing capacity, high exposure to pests and diseases, lack of access to finance and markets and increased risk of price volatility. Private sector players such as Matharia Empreendimentos, LDA and AGRILINK'S- have been working with smallholder farmers to enable them to access market directly or digitally. Other enterprises such as Massungulo, Lda are providing smallholder farmers access to affordable quality seeds. The enterprise offers seedlings of tomato, onion, peppers, cabbage, lettuce, beetroot and cucumber. Besides, they also help smallholder farmers set up vegetable gardens with recyclable materials.

CASE STUDY 8: MATHARIA EMPREENDIMENTOS, LDA

Description:

Matharia is a family-owned business operating on around 2000 ha of leased land, of which 100 ha is moringa and 500 ha is of cashew plantation. The operations are concentrated in the northern region of the country in Nampula province. In 2010, the company pivoted its model from tobacco production to seed cultivation (20 tons per year of certified soybean and pulses seeds) and poultry operation (360,000 chickens per year). It is still expanding to other products, including moringa, cashew, chilli, and avocado.

Operating Model:

The company works with smallholder farmers to aggregate and sell the produce. It engages with farmers through a contract farming model, has its own brand, and sells through exclusive resellers and distributors. The business has also partnered with grocery stores, supermarkets, and pharmacies to place their product on their shelves. Martharia is one of the two brands in the country that produces export quality moringa. By having a vertically integrated supply chain, the company can have high margins, thus being able to cover the transportation cost and other costs involved in exporting the product. The main channel of customer engagement is its network of retailers.

Given that there are very limited organic crop cultivators in the country, Martharia faces little competition.

Financial Sustainability:

Martharia is in the post-revenue stage. Although the company is in touch with a few investors, it has not secured private capital funding. It aims to raise USD 2-3 million to expand its operations. The preferred instrument for investment is equity.

Challenges:

The conflict in Cabo Delgado is a significant cause of concern as there is a possibility of it spreading to Nampula province, given its proximity. Another challenge that the enterprise faces is raising finance from banks because many banks are sceptical of giving credit to agricultural companies. Moreover, the process of sanctioning loans is long and tedious.

Impact:

Work with an extensive farmer network on a contract farming scheme, thereby providing assured livelihoods to many of them in the interior parts of the country.

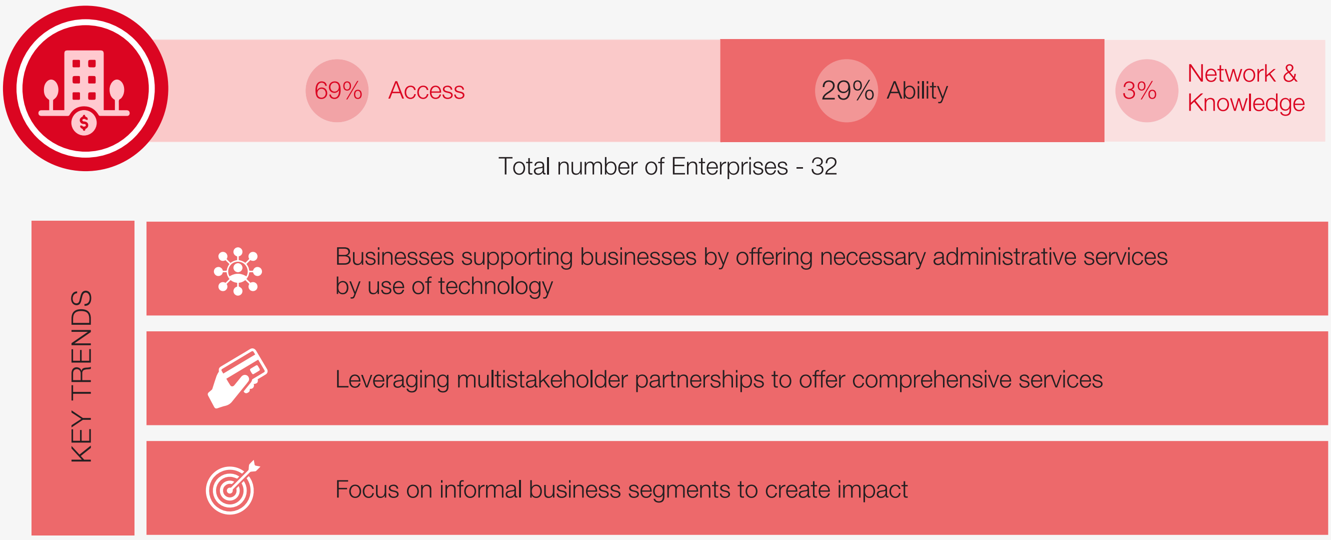
Road Ahead:

In the near future, the enterprise plans to increase its moringa farms from 100 ha to around 300 ha. The company is also in the process of getting the required certifications for it to be able to supply to European markets.

2. ABILITY ENTERPRISES

Ability enterprises offer solutions and interventions that improve incomes and purchasing power by improving their employability and livelihoods. Around nine of the total enterprises interviewed are enhancing the low-income population's ability by either offering them skills and training or offering a platform to earn a livelihood through group efforts. Some of the ability enterprises interviewed include Biscate, providing a platform for informally skilled workers to connect with customers directly and developing a digital database of informal workers for use by labour agencies; Technoplus, offering IT and other technology solutions to private enterprises to help them improve their product/service offering and Kamaleon, a digital solution provider improving the employability and skills of the rural population that lacks access to information and education.

Figure 10: Key trends of Ability Enterprises in Mozambique



Source: Intellecap Analysis

LEVERAGING TECHNOLOGY TO ADDRESS CHALLENGES OF THE INFORMAL LABOUR MARKET

The informal sector in Mozambique employs almost 80%[103] of the workforce. In 2019, the informal sector that accounts for 31% of the country's GDP, also had the highest self-employment. The World Bank estimated that around 72% of informal businesses are in retail compared with 52%[104] of formal enterprises. Other sectors with the presence of the informal sector in the year are manufacturing (7.4%), personal service activities (6.1%), and food manufacturing (4.8%)[105]. According to a survey conducted by the World Bank Group, many entrepreneurs in the informal sector have characteristics similar to wage earners, i.e., they are likely to consider the wage opportunity in case it comes along. People working in the informal sector lack access to legal protection, access to formal finance, as well as face challenges in recruiting skilled labour, etc. thus limiting their ability to contribute to economic growth. To address these challenges, UX Information Technologies, a software solution provider, launched Biscate. This service platform allows informal and often uncertified skilled workers to register and advertise their services. It provides potential customers with a list sorted by trade, location, experience level, and customer reviews and ratings.

CASE STUDY 9: BISCATE

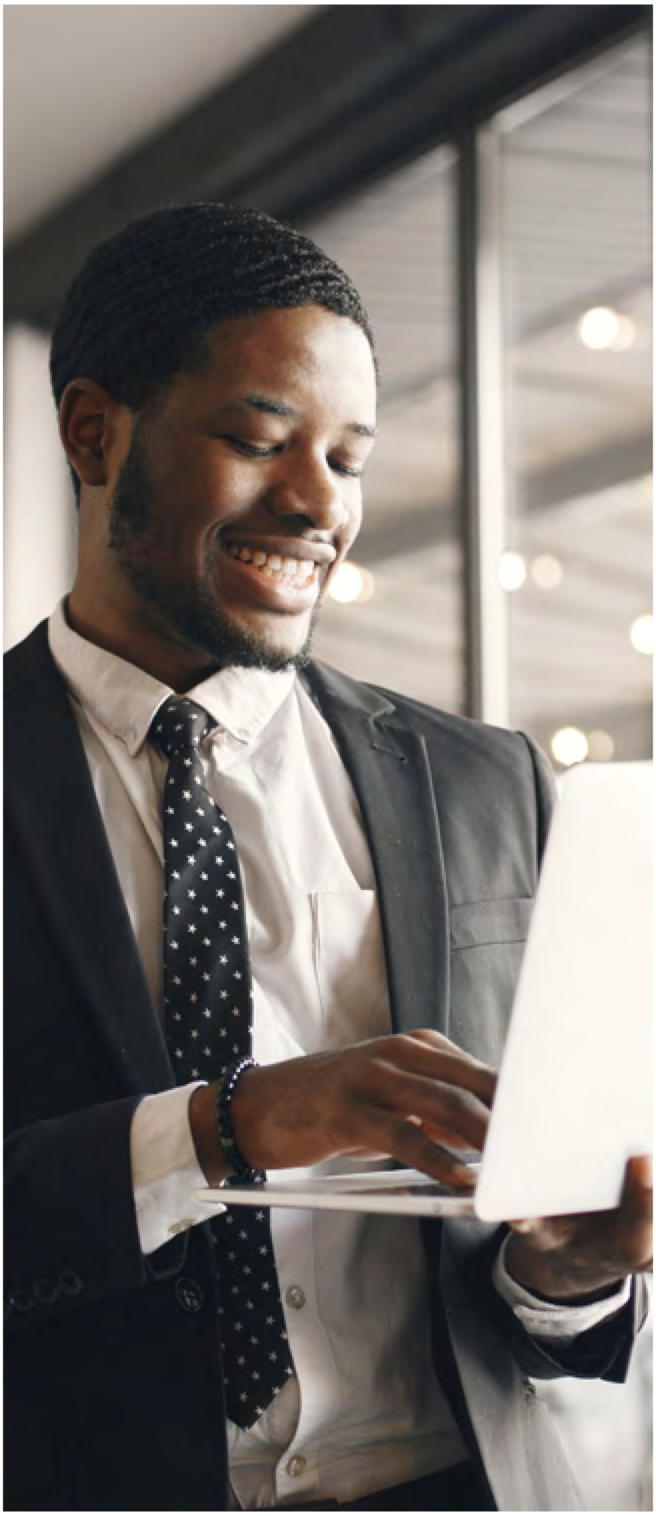
Description:
Established in 2013, Biscate is a technology company offering a digital job portal for informal skilled workers in Mozambique. The enterprise connects skilled labour with the demand market through digital technology. The digital application called 'Emprego' can generate around 30 jobs per day.

Operating Model:
Biscate digital platform allows the worker to develop an electronic profile by writing a short bio from the given 18 profiles (trades). The platform is based on three technologies: a website, a mobile app (Android and iOS) and a USSD platform, the most popular amongst the users. It has partnered with Vodafone, a telecom provider, to leverage its USSD and radio services network. Based on the requests and jobs completed, the company also conducts extensive data analysis using machine learning and algorithms to offer customised tips for its active customers.

Financial Sustainability:
The Biscate platform is offered free of cost to informal workers; however, for financial sustainability, the enterprise has developed a B2B model for services, including i) data analysis of Mozambique's labour market, especially the informal sector ii) in line with marketing and advertising through bulk SMSs to workers and customer database iii) data repository of talent by trade and location iv) online advertising and marketing on mobile application and website. The 'emprego' platform is in the post-revenue stage. Profits are paid as salaries, and the rest is reinvested in the business for infrastructure development.
The enterprise also works on development programs funded by agencies such as World Bank, UNICEF, USAID, and UNFPA. For example, it developed a platform that allowed people to register complaints about public services in their areas such as sanitation, waste collection, electricity, etc. It uses a donor up approach for such projects, wherein it looks for additional funding after the first year for the project to continue.
The company has not raised any impact investment so far; however, it has received grant funding and incubator support. In 2017, Biscate received a grant from GSMA Ecosystem Accelerator Innovation Fund to support its expansion strategies. In 2019, it received a Social Innovation Start-Up Award from GSMA and ITU award for 'SME Creating Social Impact'.

Challenges:
It is difficult for the company to sustain growth post the exit of development agencies for donor-funded projects. Though these programmes gain traction in the first year while funded by development agencies, they lose momentum from the second year onwards. This is mainly because the project, in the case of public social work, is transferred to a local government authority that is required to pay for the platform, which in most cases it fails to do, resulting in the closure of the project.

Impact:
The company currently (until December 2020) has about 40,000 active users and lists 14,000 jobs.



Finding employment in the formal sector is even more difficult for women in the country. According to a youth survey conducted by MUVA, an impact imitative by FCDO, in 2019, out of 33,000 young people between the age of 15 and 25 years, only about 9% of low-income women had wage employment, and only 2%[106] had a formal contract. From all the women having some sort of income source, 60%[107] were operating as traders in the informal sector. Few factors that limit businesses' growth are fear of change, risk aversion, lack of financial understanding, and absence of business strategising skills. MUVA, an FCDO funded program (2015-2022), offers services to empower these women entrepreneurs to address this challenge. The programme develops, tests, and measures innovative approaches for women's economic empowerment in informal sectors of urban areas. The programme provides training for subsistence female entrepreneurs aiming to increase their revenue. The programme was designed using human-centred design thinking approaches such as Problem Driven Iterative Adaptation (PDIA)[108] to keep the participant's constraints at the centre. Over 17 projects have so far been implemented with the primary purpose of providing employment. As part of the programme, women traders (in informal sectors) receive a nine-week course. The course covers soft skills for entrepreneurship (such as communications skills, negotiation skills, ability to overcome barriers, forward thinking etc.), business management (such as business skills and basic accounting) and inter/intrapersonal skills (transferable skills such as self-confidence). The course is followed by eight weeks of one-on-one mentorship. The MUVA programme has improved the participating women's profits by enhancing their business skills and future-oriented mindset. The participants also started book-keeping and took initiatives to improve their sales while relying less on informal sources of borrowing. In a similar effort to improve the rural population's skills, another enterprise[109], Kamaleon, offers digital solutions to populations that lack access to information and education. Their solar-powered Community Tablet connects service providers[110] and educators to un/underserved populations. The service providers include development agencies that run awareness programmes as part of specific projects. The enterprise Tablet solution enables disseminating educational videos and allows online interaction between the service provider and receiver. The primary aim of the service is to develop digital skills and improve awareness amongst the rural population. The enterprise also digitises the content of NGOs and customises it according to the community where they operate.

In Mozambique, almost half of the population, 45%[111] (2019), are saving, but through informal mechanisms. Examples of informal channels include savings groups (Xitique) and saving at home, either in piggy banks or under the mattress. Saving in informal groups increased from 23% in 2014 to 27%[112] in 2019. Additionally, the urban population is more likely to save (53%) than the rural population (39%)[113]. Informal savings groups in Mozambique accumulate over USD 24 million (1.8 billion Meticals) per year. However, these groups face several challenges: manual and unsafe financial transactions and exchanges, lack of formal financial inclusion, and lack of legal record of the transactions. M-Xitique, a fintech enterprise, allows informal market vendor groups, youth and families to manage their savings groups (Xitique[114]) transactions, receive financial education, and receive real-time notifications of transactions in their groups.
The enterprise offers a mobile (Android) based application to digitise the financial transactions that otherwise are either not recorded or recorded informally. The platform brings these financial transactions into the country's formal financial stream through their group codes/ accounts. Each such informal group usually has a bank account that is linked to a 'code'. However, many do not use these for transactions. By digitising the transaction, M-Xitique formalises these transactions and allows groups to track their savings, transfer money digitally to individuals/other groups, etc. Although due to financial constraints, the enterprise has ceased its operations from this year until last year it was associated with ten groups (approximately 100 individuals). The company's main challenges are access to finance that stunted its growth, government support, and rigorous competition. The enterprise tried to partner with an e-wallet service provider to offer its solution; however, it faced competition from the same service provider when it launched an application offering similar services as M- Xitique. Although it has participated in incubation programmes such as Seedstars[115], it has been so far unable to raise capital. The enterprise shortly plans to relaunch the application and integrate artificial intelligence to offer customers customised solutions. It also plans to incorporate financial literacy programmes as part of its services, recognising it as one of the key constraints.

ICT FOR ENTREPRENEURSHIP AND BUSINESS SUPPORT

Mozambique's youth unemployment rate has remained almost consistent from 2014 (7%) to 2020 (6.9%)[116]. Simultaneously, employers across the country identify inadequately skilled workforces as a major constraint to their businesses amid a digital transformation wave. The tide of startups in the country is also increasing, creating the need for a skilled workforce with mainly digital skills.

Institute of Technologies, Innovation and Services (ITIS), a technology enterprise, offers technology services for organisations and training programmes providing digital skills for trainees. The enterprise, established in 2011, aims to address the challenge of the availability of skilled workers in Mozambique. The products offered include i) Online internship: A virtual platform that enables people to intern through online workplaces to allow an exchange of ideas and experiences between Mozambique and other African countries, ii) The Business Practices and Entrepreneurship System (SPEE): A technological solution that helps businesses train their staff with required skills so that they can handle complex issues of companies. SPEE covers both specific and transversal aspects, ranging from the legal component to the day-to-day management of companies. The SPEE technology is currently used in more than 17 universities across Mozambique, iii) Business Stimulation Course: The enterprise offers individuals training on 'starting a business' and develops their skills to manage complex business challenges. The course has been designed through the joint efforts of educational institutions, government institutions, the private sector and international organisations to enhance Mozambican intellectual capital and facilitate access to the labour market for trainees. Apart from training, the enterprise also offers business management solutions for startups. It also provides technology solutions for various government bodies and agencies, such as automation of productive sector management and monitoring, a toolkit for SMEs, a platform for revenue, and municipal corporation expense management. ITIs has primarily been bootstrapped and has not raised external funding. It has not raised capital from conventional sources such as banks due to high interest rates and the need for collateral. The organisation is looking for financial support for its expansion plans outside Mozambique, requiring it to translate its course material into other languages.

Another technology enterprise Robobo offers digital solutions and services primarily for startups. It started with the objective to meet the rising demand for web and mobile-based software solutions by smaller enterprises. The enterprise also offers a payment aggregator solution called Paga-Lu.

CASE STUDY 10: ROBOBO

Description:

Established in 2011, Robobo is a software solution provider initially set up in the UK and officially set up its business in Mozambique in 2016. It develops IoT, hardware, software, and other technology solutions. Its payment aggregation platform (PagaLu) is aiming to fill the digital financial gap in the country.

Operating Model:

Robobo designs software solutions (web and mobile-based) for enterprises to conduct online surveys for data collection and analysis. It also helps enterprises, primarily startups, to test their prototypes before launching their product in the market. It also assists these enterprises in designing these prototypes. The solutions are bundled into subscription packages customised for each customer segment: basic, professional, business and corporate. The company has high retention rates, i.e., multiple repeat customers that have stayed with the company for its various technology needs.

In 2017, Robobo launched the PagaLu application, a payment aggregator platform that offers easy digital payment solutions to its customers by partnering with financial service providers, banks, etc. Through this platform, customers can make and receive payments from anywhere. It leverages the existing bank accounts of customers to integrate them on the platform. The enterprise relies primarily on referrals for customer acquisition.

Financial Sustainability:

Robobo is in a post-revenue stage. Most of the revenue is from the sale of software solution services. Given that PagaLu is a newer application, it currently generates no revenue. PagaLu generates revenue from the service charge percentage on each transaction.

Although the enterprise has not raised any investor funds, it has secured grants from donors. It was also part of the Sandbox project by The Central Bank of Mozambique, with support from FSDMoc to test Mozambique's financial solutions. The project was funded by Germany (KfW), UK (FCDO), Sweden, World Bank, MasterCard Foundation and other banks and MNOs.

Challenges:

IA few of the challenges faced by the enterprise are: i) slow progress owing to regulatory roadblocks ii) limited awareness and demand in the market, despite the emergence of the digital financial space, iii)lack of local skilled human resources, and iv) absence of business support services such accounting, consulting, and legal advice.

Impact:

To date (December 2020), Robobo has completed more than 20 projects, has more than 15 customers and has successfully forged more than two partnerships.

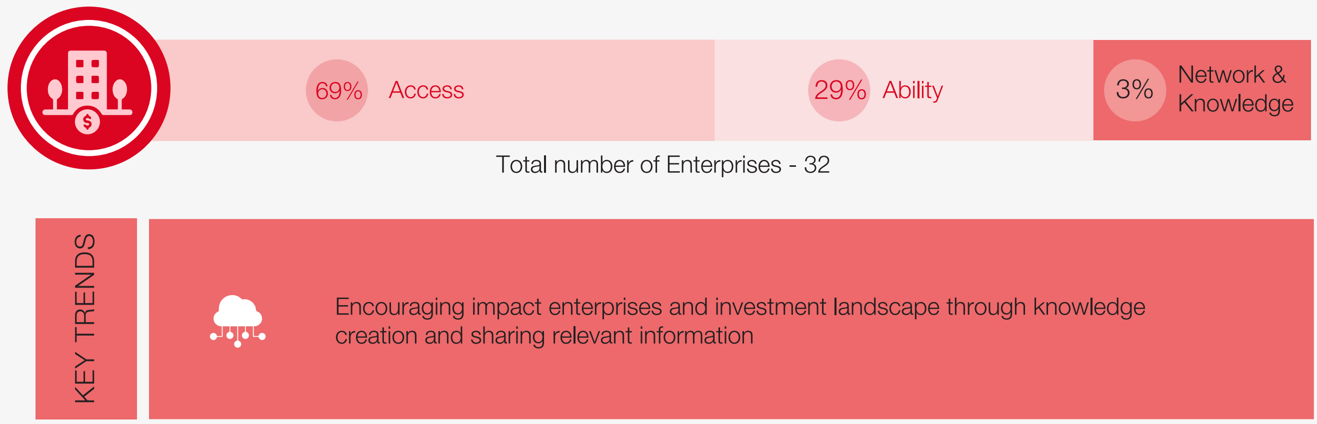
Road Ahead:

The enterprise is in the process of developing a platform that will allow customers to have a digital account/e-wallet on the platform. It plans to integrate USSD technology to enable e-wallet access for customers from the lower-income population. It intends to leverage its existing partnership with a telecom provider to offer this service in the future. Robobo, in the future, aims to minimise its dependence on financial institutions.

3. NETWORK AND KNOWLEDGE ENTERPRISES

Many enterprises in Mozambique lack an understanding of business operating norms, including governance, documentation, and fundraising. Network and knowledge enterprises build awareness and share information to initiate behaviour change and allow communities to connect to unreachable markets. Some of the access and ability enterprises also offer network and knowledge services apart from providing essential goods and services and deliver innovative solutions to improve livelihoods.

Figure 11: Key trends of Network & Knowledge Enterprises in Mozambique



Source: Intellecap Analysis

ECONOMIC INCLUSION AND PROMOTION OF ENTREPRENEURSHIP

Investors exploring investment opportunities in Mozambique struggle to find collated information/ data on the private sector landscape. The challenge is manifold for women entrepreneurs in the country. It is difficult for enterprises from remote communities to participate in ecosystem activities. Such limitations hamper the growth of the private sector in the country. SamSara, a social enterprise, addresses the challenge by providing businesses opportunities to participate in incubation and skill development programmes. It also provides investors access to relevant information needed for investing in the country. SamSara has partnered with Idealabs, a social enterprise offering acceleration support to micro, small and medium businesses. The target customers for the enterprise are DFIs, aid agencies, foundations, and foreign consulting enterprises. SamSara works with enterprises and facilitates funding for their operations.

CASE STUDY 11: SAMSARA

Description:
SamSara is a research enterprise that seeks to create social impact through sustainable change, value optimisation and a strategic approach. SamSara gathers all of the information in one place, processes the data for investors and policymaking. While there are many consultation enterprises in the oil and gas sector, there is a dearth of such support in the impact space; SamSara aims to address this whitespace.

Operating Model:
SamSara offers on ground research and consultation services to global investors interested in exploring investments in Mozambique but with no local presence. The enterprise works with partners such as ideaLabs to connect with investors and collect and analyse data. From the demand side, SamSara identifies the critical challenges faced by enterprises and designs targeted solutions and does advocacy. For instance, SamSara is developing a syndicate of enterprises owned by women that find it particularly difficult to raise finance.

Financial Sustainability:
Provides research services to DFIs, NGOs, and impact investors. The enterprise gathers and processes information for investors and policymaking.

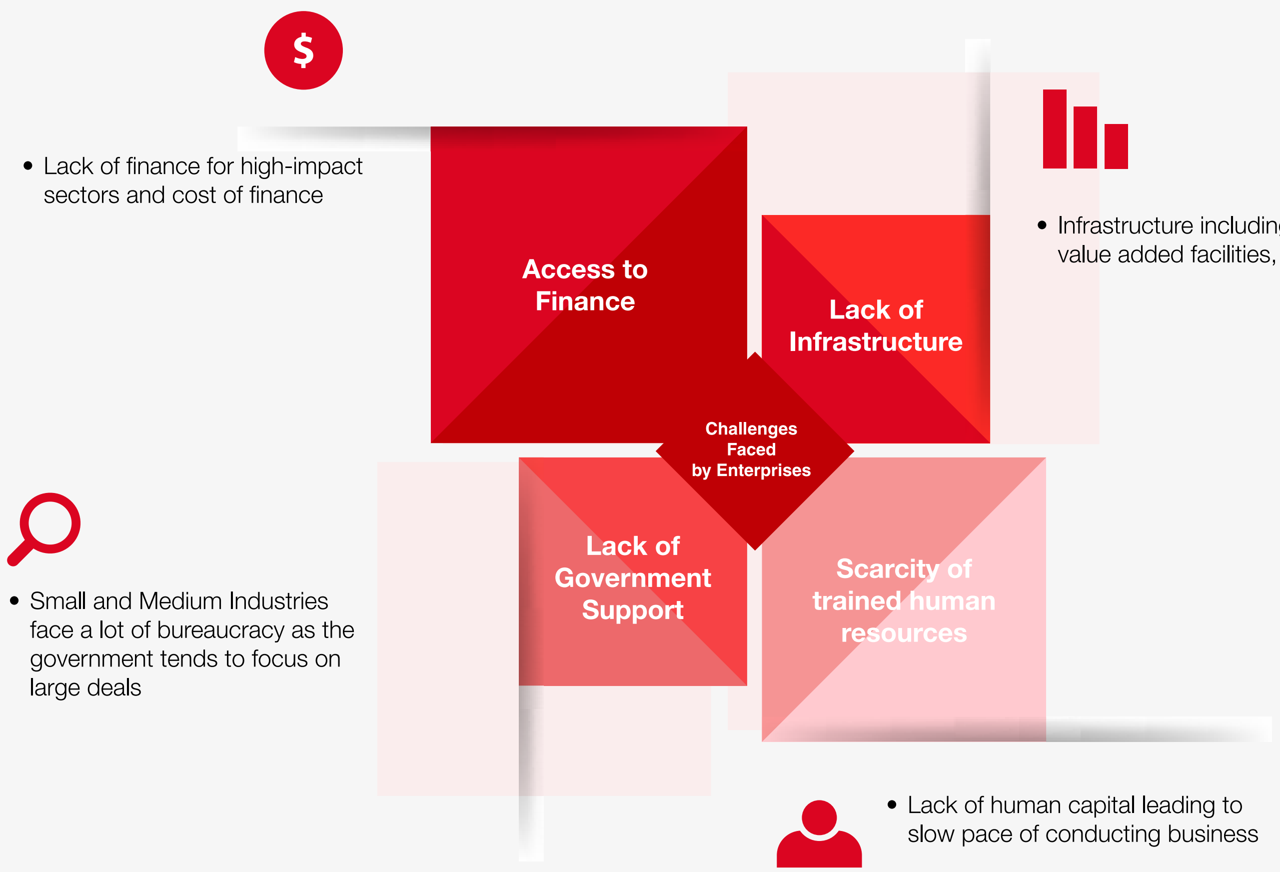
Challenges:
Most of the enterprises in Mozambique work in silos and do not interact with each other. Most of them are traditional enterprises, whereas investors only prefer innovative solutions with a new business model.

Road Ahead:
The enterprise is working on getting legal recognition of the impact investing concept

CHALLENGES FACED BY SOCIAL ENTERPRISES IN MOZAMBIQUE

Mozambican enterprises face multiple challenges, from incorporation to the growth stage. Some of the difficulties based on conversations with social enterprises and investors are described in this section.

Figure 12: Key challenges faced by private sector enterprises in Mozambique



Source: Intellecap Analysis

• ***Access to finance remains a significant issue for enterprises in Mozambique, with a large financing gap observed in the country.*** The lending rate for SMEs and agricultural producers is close to 30 percent, which is extremely expensive, thereby restricting growth and profits. The challenge is particularly grav for impact sectors such as agriculture and clean energy, which have a longer repayment period than other sectors. Banks and other financial institutions also have strict eligibility criteria for loan disbursal, which only the larger enterprises only meet. Most of the small enterprises, especially in the impact sector, do not have collateral to pledge with the banks and are not eligible for loans. Lack of access to finance constraints SMEs' growth in the impact sectors, with most of them growing organically through bootstrapping and then working towards larger orders and clients.

• ***With low access to electricity, poor road network and underdeveloped water infrastructure, business growth potential remains constrained.*** Despite having one of the world's highest energy potentials, only one in four citizens of the country has access to on-grid electricity. The situation is worse in rural areas, where only eight percent of the population has access to electricity. This is a significant impediment for farmers and enterprises alike. Rural areas also face challenges in transportation infrastructure, specifically road coverage, which translates into high transaction costs making the country's productive sectors uncompetitive. The country has one of the lowest road coverages in Africa, ranking 45th out of 54 countries in per capita road coverage and 46th of 54 inland area coverage. Many of the enterprises have cited logistics cost as the number one barrier in expanding their business. Mozambique also lacks water infrastructure making the agriculture sector vulnerable to both drought and floods as many of the rivers originate outside the country. Many of the enterprises have reported inconsistencies in raw material supply,

• ***Lack of government support for small and medium enterprises (SMEs)*** is a concern for many enterprises and investors alike. The government is more focused on attracting foreign direct investment (FDI) in the Oil and Natural Gas and mining sectors, which increases the overall GDP of the country. These investments have largely failed to create downstream opportunities for the country's small and medium enterprises, which has led to discontent among entrepreneurs. The Central Bank of Mozambique also regulates investments in SMEs across the country, which is an additional hindrance for investors looking to invest in these enterprises.

- ***The absence of business enabling stakeholders*** is also a critical challenge for many social enterprises operating in the country. Many enterprises often struggle to find the necessary technical and business support providers such as accountants, legal advisors, and business consultants.

- ***Education levels in the country remain low, resulting in scarcity and inadequate human resource capacity, which impedes the private sector's growth.*** The Government of Mozambique has committed to invest in education, with the sector expenditure amounting to over 6.5 percent of the GDP (2017), which is relatively high for the region. The increased government expenditure has led to a rapid increase in higher education institutions from eight in the '90s to 54 in 2017. Special emphasis is also laid on TVET (Technical and Vocational Education and Training), with the number of students increasing from 45,000 in 2011 to 64,000 in 2015. Despite these initiatives, the country faces a skills gap, primarily in technical skills (Agriculture production, IT, advanced manufacturing techniques). This often leads to enterprises recruiting employees from neighbouring countries or selling raw materials instead of adding value.

> *Access to markets is a challenge for many of the farmers and enterprises, especially in the agriculture sector. In Zambesi province, women cooperatives travel for more than 10 Kms until they find transportation.*
> *Director, FEMME*

> *Imports of necessary goods is a major challenge as I have trouble forecasting the price. This is due to additional expenses which have to be paid at ports which are not always legal.*
> *CEO – Agriculture Enterprise*

> *Logistics is the major challenge in Mozambique. Even the roads which are present are flooded during the rainy season which causes indefinite delays in transportation of goods.*
> *CEO - WINNUA*

> *Banks were not prepared to finance agriculture enterprises and farmers. It also takes a lot of time for banks to evaluate your business plans, but since the buying period is short, we often look for financing from other sources, even if they are costlier.*
> *CEO – Family owned enterprise*

04

THE LANDSCAPE OF IMPACT INVESTORS IN MOZAMBIQUE

This chapter covers the supply of impact investment in Mozambique, focusing on the type of impact capital providers present in the country and their investment strategies. The section also covers various challenges faced by investors in the country. The sections' insights and learnings are based on a combination of secondary research and discussions with ten investors and ecosystem support organisations (ESOs) present in Mozambique.

CURRENT IMPACT INVESTMENT LANDSCAPE IN MOZAMBIQUE

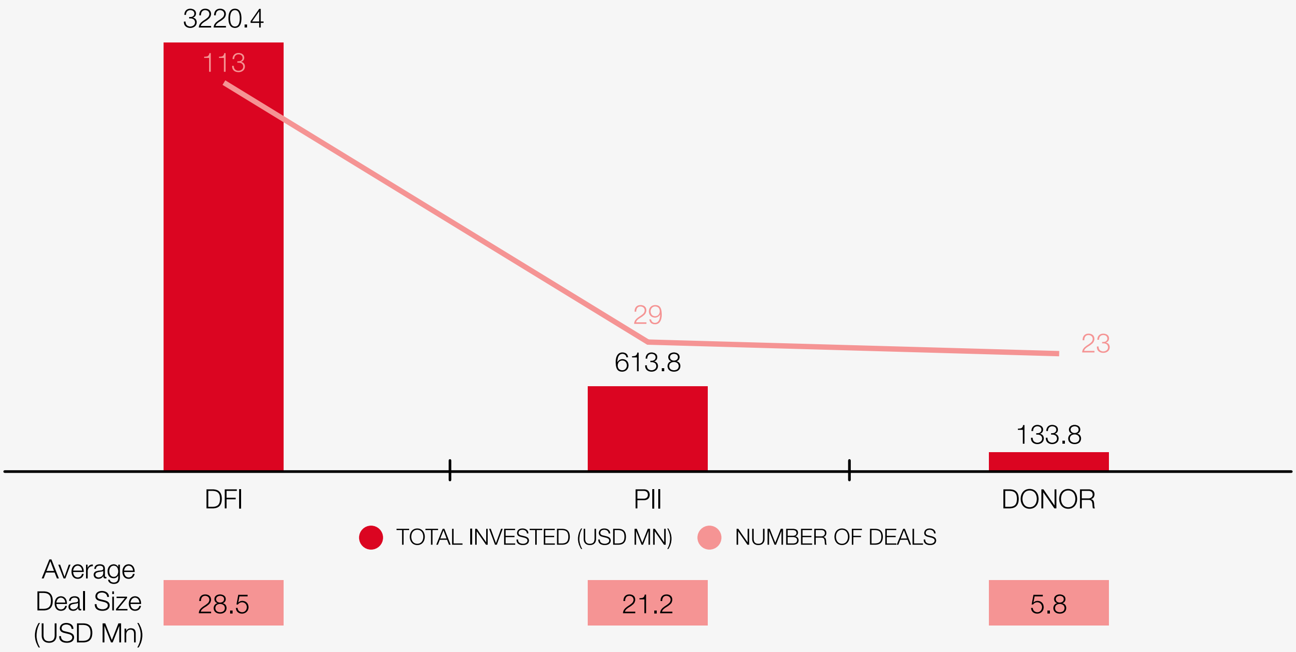
There is a significant mismatch between demand and supply of impact capital in Mozambique. Impact sector enterprises, including agriculture, healthcare, renewable energy and others, are often bootstrapped and grow organically. This is due to the complex process of acquiring financing from Mozambique's financial institutions, high levels of collateral required, and high rates of interest.

Impact stakeholders have invested a total of USD 3.97 billion across 165 deals in Mozambique. DFIs have invested the most, with over USD 3.2 billion invested across 113 deals, while private impact funds have invested USD 613.8 million across 29 deals. Donor agencies have only invested in 23 deals with a total of USD 113.8 million[118]. More than 94 percent of these investments have been in the past 15 years (from 2005 – 2020).

Impact Investment definition in Mozambique

Based on the discussions with the stakeholders from Mozambique, 'Impact Investment' is defined as investment that aims to create sustainable social and/or environmental impact for enterprises and communities as well as provide adequate financial returns to investors. The intentional focus on social impact and financial return is what distinguishes impact capital from traditional captial.

Figure 13: Impact Investments in Mozambique by Investor Type (USD million) (2000-2020)[117]



Source: Intellecap Analysis

OVERVIEW OF KEY IMPACT INVESTORS IN MOZAMBIQUE AND THEIR INVESTMENT/ FUNDING STRATEGIES

Impact investors operating in the country have primarily adopted five key funding strategies, as shown in the image below.

Figure 14: Analysis framework for impact investments in Mozambique

	Design Stage Grants	Technical Assistance Funds	Impact Investments	Guarantee/Risk Insurance	Concessional Capital
Angel Investors			AMBA, HNIs, Miles Morland		
Incubators & Accelerators	IdeaLab, Standard Bank Incubator, Institute for the Promotion of Small and Medium Enterprises (IPEME)	IdeaLab, FSDMOC, Standard Bank Incubator, Moz Innovation Lab, Institute for the Promotion of Small and Medium Enterprises (IPEME), Maputo Living Lab, Rlabs, Mozdev, DevMozambique	FSDMOC		
Foundations & NGOS	Foundation Ensemble	Foundation Ensemble, COmON Foundation, Peace Parks Foundation, Istituto Oikos			
DFIs	IFC	IFC, AfDB, Proparco, FMO, KfW, Regional MSME Investment Fund for SubSaharan Africa (REGMIFA),	IFC, Development Finance Corporation, Proparco, CDC, FMO, AfDB, Norfund, IFU, KfW, Belgian Investment Company for Developing Countries (BIO), European Investment Bank (EIB), Kuwait Fund, Regional MSME Investment Fund for SubSaharan Africa (REGMIFA), China Development Bank (CDB)	IFC, Development Finance Corporation, SIDA	IFC, KfW
Impact Investors	Partnership for Forests, Beira Agricultural Growth Corridor (BAGC)	Partnership for Forests, Africa Enterprise Challenge Fund (AECF), Beira Agricultural Growth Corridor (BAGC), Thirdway Africa	Arise Fund, Electrifi (EDFI), CFC (Common Fund for Commodities), Aquaspark, Goodwell Investments, Agro-Guarantee Credit Guarantee Fund, Beira Agricultural Growth Corridor (BAGC) Catalytic Fund, Source Capital, Africa Enterprise Challenge Fund (AECF), Thirdway Africa		Africa Enterprise Challenge Fund (AECF), Beira Agricultural Growth Corridor (BAGC)
Bilateral/ Multilateral Donors	GIZ	USAID, DFID, GIZ, Swiss Agency for Development Corporation, Norwegian Agency for Development Cooperation, European Union	International Fund for Agriculture Development (IFAD), USAID, DFID, GIZ		USAID, DFID, GIZ

Level of involvement *High* ● ● ● ● *Low*

Source: Intellecap Analysis

ROLE OF DFIS IN THE IMPACT INVESTMENT SECTOR IN MOZAMBIQUE

Development Finance Institutions (DFIs) play a crucial role in improving the country's private sector landscape, both directly and indirectly. DFIs such as International Finance Corporation (IFC), Development Finance Corporation (DFC), Proparco, CDC, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO), African Development Bank (AfDB), Norfund, GAPI, KfW Bankengruppe (KfW), Investment Fund for Developing Countries (IFU) and others have invested in improving the private sector of the country through direct investments in SMEs and indirectly through the provision of technical advisory services, political risk insurance, and credit guarantees.

Table 3: Summary of activities of major DFIs in Mozambique between 2005 and 2020[119]

Name of the DFI	Capital Deployed (USD Mn) (2005 – 2020) (Indicative)	Sector Priorities	Key Investment Strategies
Development Finance Corporation (DFC)	*1748 Mn*	*Energy, Financial Services*	*Guarantees, Debt*
International Finance Corporation (IFC)	*620 Mn*	*Financial Services, Energy Agriculture & Fisheries*	*Blended Finance, Debt, Equity, and Grants*
African Development Bank (AfDB)	*440 Mn*	*Energy, Financial Services*	*Debt, Blended Finance, and Grants*
Proparco	*47 Mn*	*Financial Services, Energy*	*Debt*
FMO	*38 Mn*	*Financial Services*	*Debt*
AgDevCo	*21 Mn*	*Agriculture & Fisheries*	*Blended Finance, Equity*
KfW	*36 Mn*	*Financial Services*	*Blended Finance, Debt, Equity*
China Development Bank	*20 Mn*	*Financial Services*	*Debt*
GAPI	*19 Mn*	*Agriculture & Fisheries, Multiple Sectors*	*Equity, Debt*
Belgian Investment Company for Developing Countries (BIO)	*15 Mn*	*Financial Services*	*Debt*
Norfund	*13 Mn*	*Energy, Real Estate*	*Equity, Blended Finance*
Investment Fund for Developing Countries (IFU)	*7 Mn*	*Agriculture & Fisheries, Energy*	*Blended Finance, Equity*
European Investment Bank (EIB)	*7 Mn*	*Financial Services*	*Debt*

Source: Intellecap Analysis

SECTOR PRIORITISATION BY DONORS

DFIs play a significant role in the development of impact sectors across Mozambique. DFIs have invested more than USD 3.22 billion across more than 113 deals in the country. ***More than 72 percent of the DFI investments are directed towards the energy sector.*** The most significant DFI investment has been a USD 1.5 Billion political risk insurance provided by the Development Finance Corporation (DFC) to the Rovuma LNG Natural Gas Project, which is under development.

The agriculture and fisheries sector has the largest number of DFI investments (39), followed by financial services (31) and energy (10). Apart from the energy sector, which has an average deal size of USD 233 million, the manufacturing industry with an average deal size of USD 39.71 million and financial services with USD 14.8 million have seen the most significant investments per transaction. While most of the transactions have been in stand-alone enterprises, some of the investments by DFIs, such as GAPI, have been towards creating youth entrepreneurship initiatives. For instance, GAPI's investment in the Agro Jovem project enabled the creation of 121 new companies and contributed to creating more than 600 jobs across the country[120].

Case Study 12: Rovuma LNG Natural Gas Project[121,122]

ENERGY

Rovuma LNG natural gas project

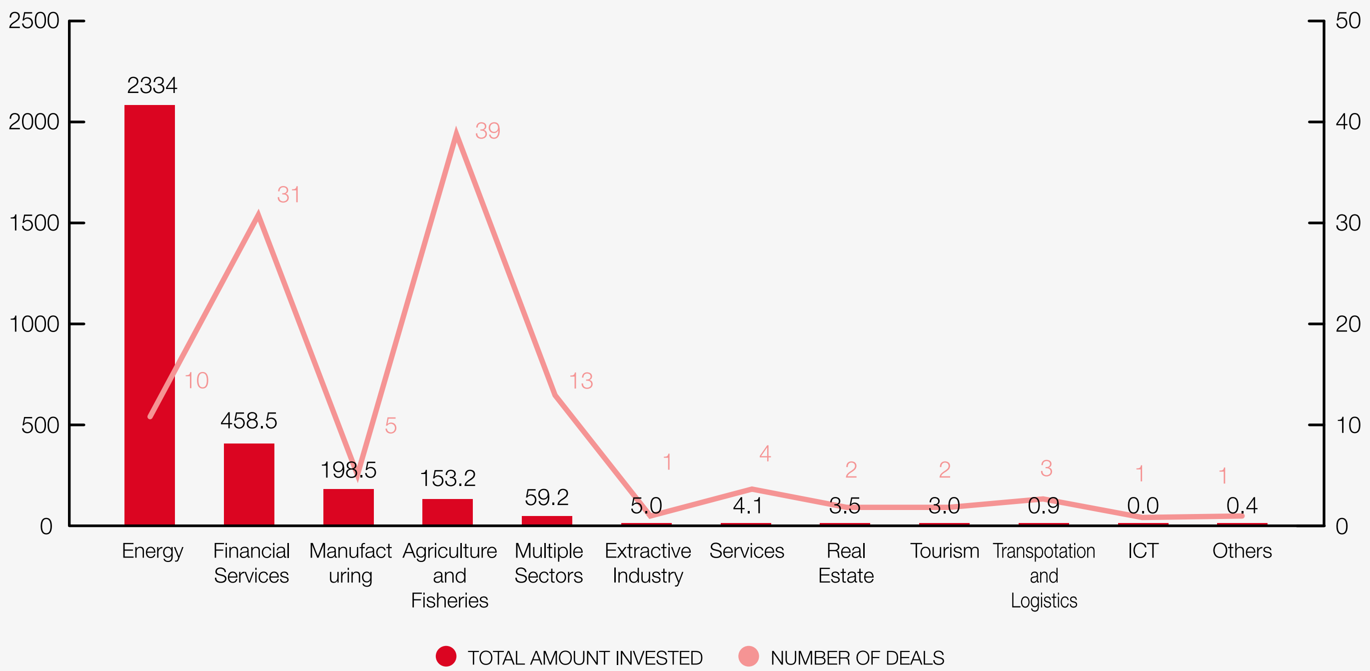
DFC has approved a $1.5bn political risk insurance deal to support the Rovuma LNG natural gas project, which is under development in northern Mozambique by US oil and gas major ExxonMobil and Italian oil company ENI.

The political risk insurance deal will support the development, construction, and operation of an onshore liquefaction plant, along with supporting facilities.

- *Investor (s): Development Finance Corporation (DFC)*
- *Amount: USD 1.5 Billion*
- *Investment Type: Political Risk Insurance*
- *Year of Investment: 2020*
- *Sub - Sector: Oil and Gas*
- *Status: Ongoing*

Source: World Bank

Figure 15: DFI investments across various sectors in Mozambique (Indicative)



Source: Intellecap Analysis

While most DFIs are sector agnostic, DFIs such as AgDevCo have a particular sector focus and have only invested in the agriculture and fisheries sector. AgDevCo has used a combination of equity, debt, and technical assistance to contribute towards the development of nine enterprises in Mozambique.

Case Study 13: Transurban

AGRICULTURE

Transurban

These funds were used to finance two operations namely Ovos D'Ouro and Comercio Azul, both owned by Transurban Africa. AgDevCo's investment in Ovos D'Ouro, which is an egg farm located in Inhambane province will enable the expansion of the existing operations to become a 50,000 bird operation. Comercio Azul is a retail company which supplies low, middle, and high income earners with affordable quality products including frozen and dry goods, eggs, phone credit and drinks. Comercio Azul ensures that a substantial part of their products are procured locally, benefitting local entrepreneurs.

- *Investor (s): AgDevCo*
- *Amount: USD 1.15 million*
- *Investment Type: USD 0.3 Mn in Equity and USD 0.85 Mn in Debt*
- *Year of Investment: 2018*
- *Sub - Sector: Livestock and Retail*
- *Status: Active*

Source: World Bank

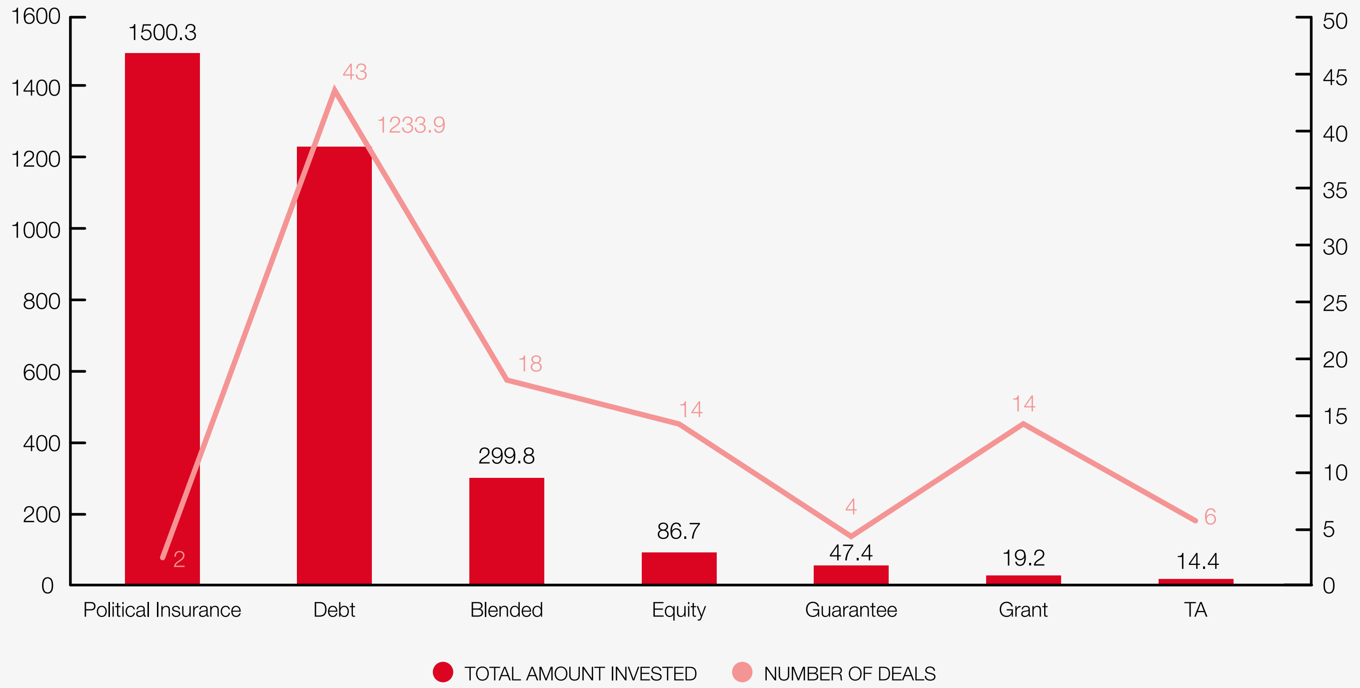
INVESTMENT STRATEGIES OF DFIs

DFIs have invested in Mozambique either through debt or equity. Some of the DFIs have also invested by blending various investing instruments, including debt, equity, and technical assistance. Investors such as IFC, KfW and others also provide grants to provide technical assistance to various enterprises to improve their market competitiveness. DFIs have invested more than USD 1.23 billion through debt across 43 transactions. The average size of a debt deal in Mozambique is USD 28.7 million, with IFC, DFC, Proparco, FMO, AfDB, IFU, and GAPI being the leading investors. Some of the other DFIs such as AgDevCo, China Development Bank, KfW and Banco Comercial e de Investimentos (BIO) have also invested smaller amounts through debt transactions across the country.

There have been only two transactions involving DFIs providing political insurance to enterprises operating in the country. DFC provided the largest single insurance transaction in Mozambique's history with a USD 1.5 billion insurance facility to ExxonMobil and ENI, as mentioned in the section above. Over 13 enterprises have been financed through the equity route with an average transaction of USD 6.28 million. Over 85 percent of the country's equity transactions have been in the agriculture & fisheries, and energy sectors. The rest of the transactions have been in the extractive, financial services, manufacturing, and real estate sectors.

Blended finance instruments have been utilised to a great extent by the DFIs operating in Mozambique. There have been 18 investments using blended finance instruments totalling USD 299.8 million with an average deal size of more than 16.7 million. The majority of these investments (more than 90 percent) have been made in the energy, financial services, and manufacturing sectors. While the combination of debt and equity was a common investment strategy, some investors also offered technical assistance and risk management.

Figure 16: Investing Instruments used by DFIs in Mozambique (Indicative)[123]



Source: Intellecap Analysis

Credit guarantees: It has been one of the most popular instruments used by DFIs in Mozambique. DFC, Swedish International Development Corporation Agency (SIDA) and others have been very active in using credit guarantees to create an impact on the development/impact sectors of Mozambique. Financial institutions across the country are risk-averse, and lending to SMEs is considered risky - credit guarantees provide a safety cushion for investments in SMEs in impact sectors. These credit guarantees often include technical assistance provided by DFIs to safeguard their investments and provide value addition to the country's SMEs. While credit guarantees serve as a safety mechanism for banks to lend to SMEs in impact sectors, they do not address the primary issue of lack of liquidity in the country's financial system. Banks that receive these credit guarantees also have strict eligibility criteria, which most of the enterprises in impact sectors fail to meet, making them ineligible for these loans.

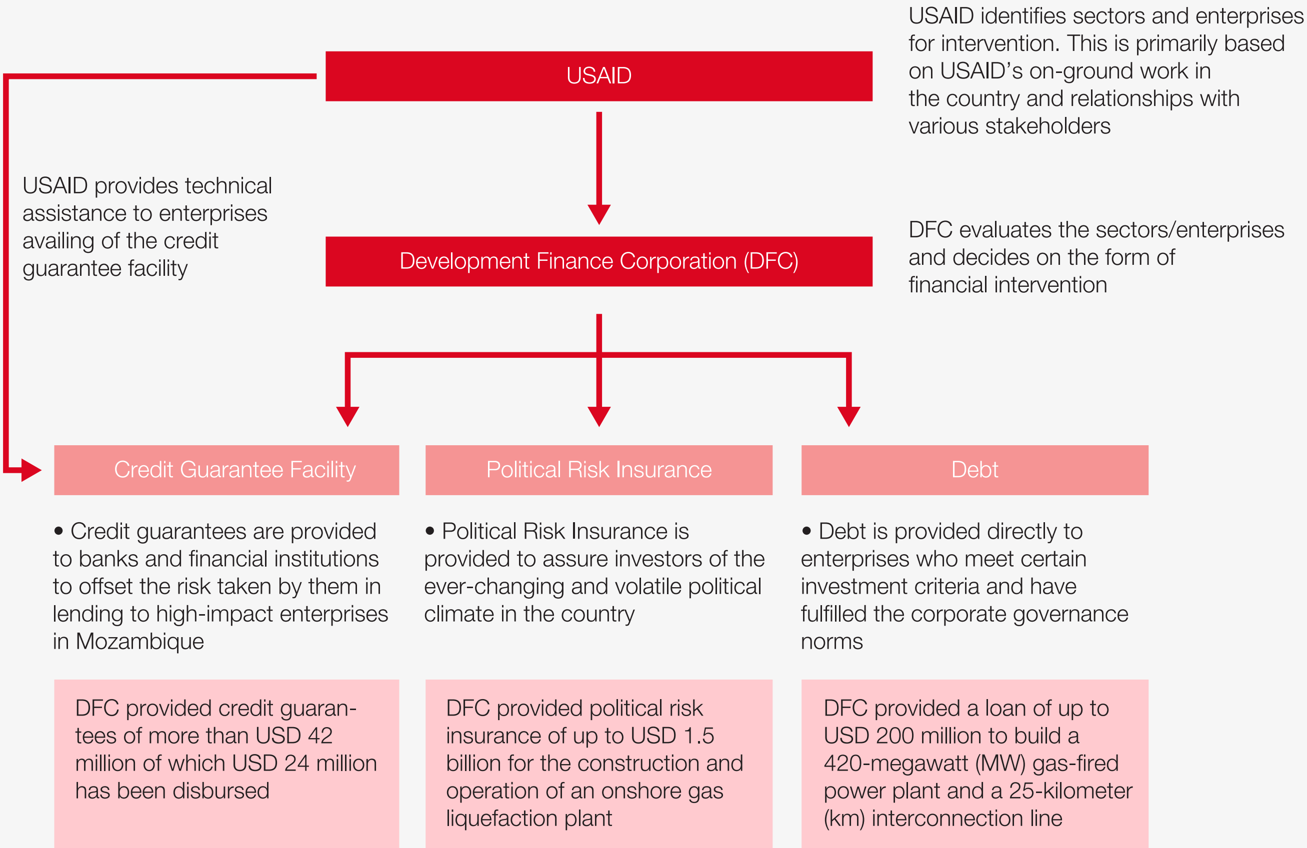
CASE STUDY 14: CREDIT GUARANTEES BY DEVELOPMENT FINANCE CORPORATION

DFC currently has four active guarantees in Mozambique which are provided to four local banks. DFC provides a 50% credit guarantee for loans lent by local banks for selected sectors and enterprises. Of the four active credit guarantees:

- *Two are large SME loan portfolios for agriculture-based enterprises*
- *One is for a small microloan facility*
- *One is for a microfinance facility which lends to women SMEs*

Historically, DFC has eight credit guarantees totalling USD 42 million of which USD 24 million has been disbursed (four of the credit guarantees have expired while four are active). More than 3,700 loans have been disbursed under these credit guarantees of which more than 72% have been to the agricultural sector while the remaining 28% have been to other SMEs. Renewable energy, healthcare, and financial inclusion have recently become part of the portfolio. One of the credit guarantees with MFI bank has a gender lens element to it and has a pre-requisite condition that 40% of the loans have to be disbursed to women-owned enterprises (the MFI has still struggled to reach that number). These credit guarantees provided by DFC are based on inputs given by USAID. USAID provides recommendations on sectors and in some cases enterprises based on its on-ground experience across Mozambique. The enterprises are evaluated based on mission alignment with USAID, credit worthiness, legal standing, and three years audited financials (If the enterprise has been operational for three years). While DFC's work with microfinance institutions has been successful, transactions with banks has been a bit of a challenge. This is primarily due to limited on-ground experience of banks in impact sectors.

Figure 17: DFC's investing model in Mozambique[124]



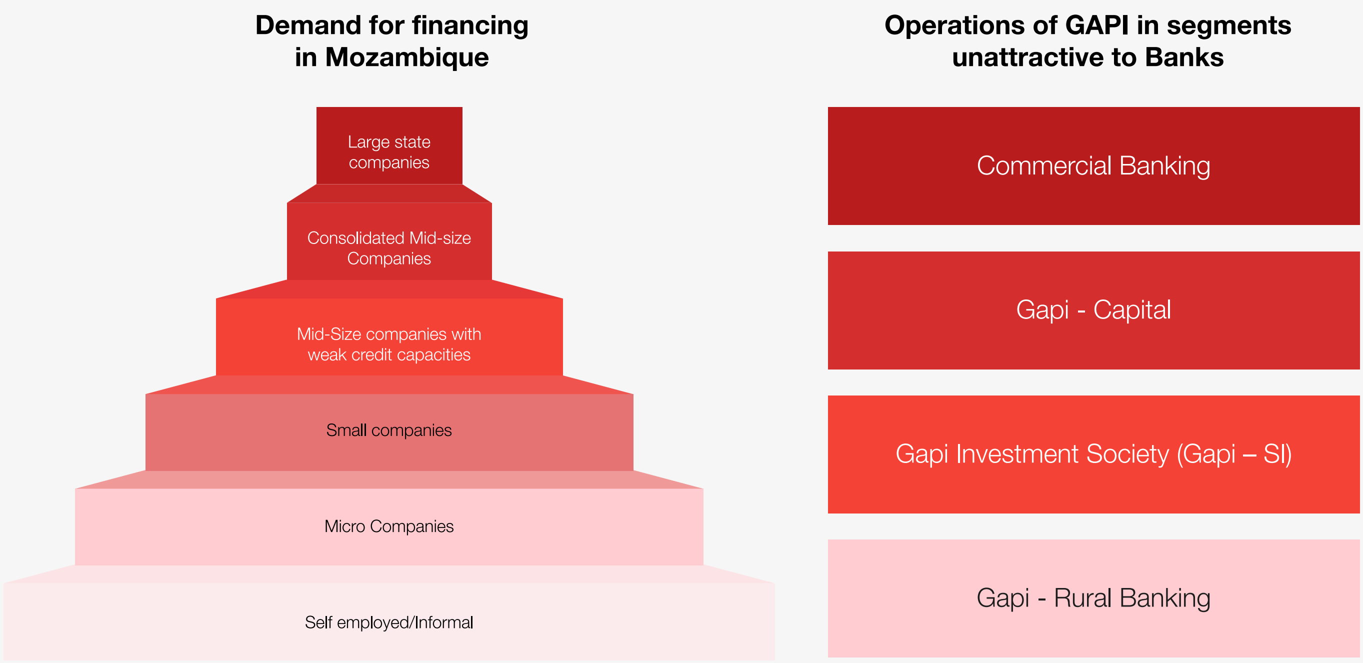
Source: cgdev

SIDA invests primarily through grants and credit guarantees with a significant focus on climate change and the environment along with agriculture. SIDA has provided grants to a national utility, enabling them to provide electricity to low-income households (not on the production side but also on the distribution side). They also provide funding for small water projects in semi-arid regions. There is also a global agreement between the United States Agency for International Development (USAID) and SIDA, where they combined roll out credit guarantee schemes across the country. SIDA has two credit guarantees in Mozambique. One of the guarantees, which is near close, targeted agri based MSMEs focused on export sectors. Through this guarantee, SIDA provided an average loan of around USD 100,000 to over 50 enterprises. The other credit guarantee, which is currently active, focuses on women entrepreneurs' MSMEs (at least 50% of the borrowers need to be women) in the informal sector. As part of this facility, an average loan of USD 1,000 is provided to around 1,500 enterprises.

Equity Investments: DFIs such as GAPI provide many investment services for SMEs in Mozambique. GAPI offers capacity-building support, refinances microfinance institutions(MFIs) in the country, and assists in establishing community finance organisations and a network of rural banks to promote savings and financial education. The entity has invested through debt and equity in more than 20 companies across agriculture, financial services, and other impact sectors. The average investment by GAPI in an enterprise is USD 50,000. The primary shareholders in GAPI include Community Development Foundation (FDC), Graça Machel, Mozambican Red Cross, the Institute for State Participation Management (IGEPE), Gapigest, CTA, and GTT (Managers, Technicians and Workers).

GAPI works with the government of Mozambique and various

Figure 18: GAPIs interventions for various classes of enterprises

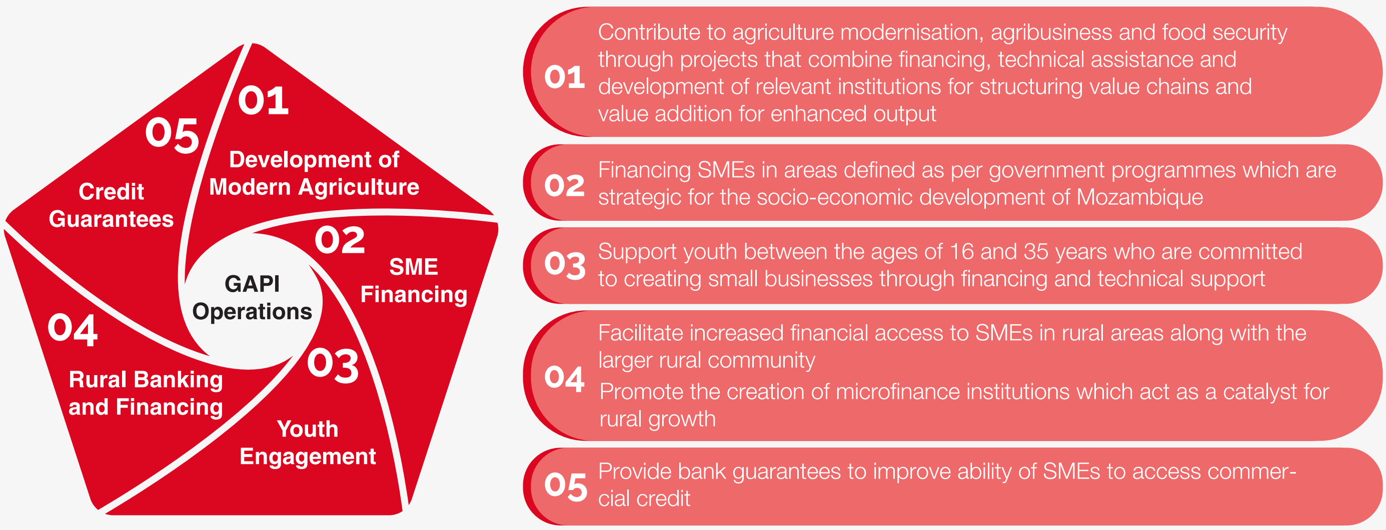


Source: GAPI

international partners to leverage investments and invest in enterprises while simultaneously providing technical assistance and capacity building. Some of such partners include Danish International Development Agency (DANIDA), SIDA, KfW, USAID, Foreign, Commonwealth & Development Office (FCDO), AfDB, Japan International Cooperation Agency (JICA), International Fund for Agricultural Development (IFAD) and others.

Most of the international DFIs and donors implement the Mozambican programmes in collaboration with GAPI. Apart from investment-related activities, GAPI is also working towards devising a plan to modernise food markets across the country, creating a registration of farmers in the country, and is in the process of creating an IT accelerator in collaboration with ideaLab.

Figure 19: Key Pillars of GAPIs operations in Mozambique



Source: GAPI and Intellecap Analysis

Debt investments: Debt investments are made by DFIs mostly into large scale projects such as renewable energy and infrastructure. These debt investments serve as a launchpad for the entry of foreign enterprises into Mozambique. Proparco and Agence Française de Développement (AFD) provided a USD 40 million debt in 2019 towards the financing of the Metoro project. As part of the project, a 41MWp solar plant will be built near Metoro village, north of the country. The Metoro project is led by Electricidade de Moçambique (EDM) and Neoen, a French company specialising in developing renewable energy[125].

Case Study 15: Banco Commercial e de Investimentos

FINANCIAL SERVICES

Banco Comercial e de Investimentos

Through this financing, Proparco's objective is to contribute to the diversification of financial services in the country, as around 40% of BCI's outstanding loans are for private individuals and SMEs. There is also a wide range of products for start-ups and women entrepreneurs (Women Entrepreneur Credit Line).

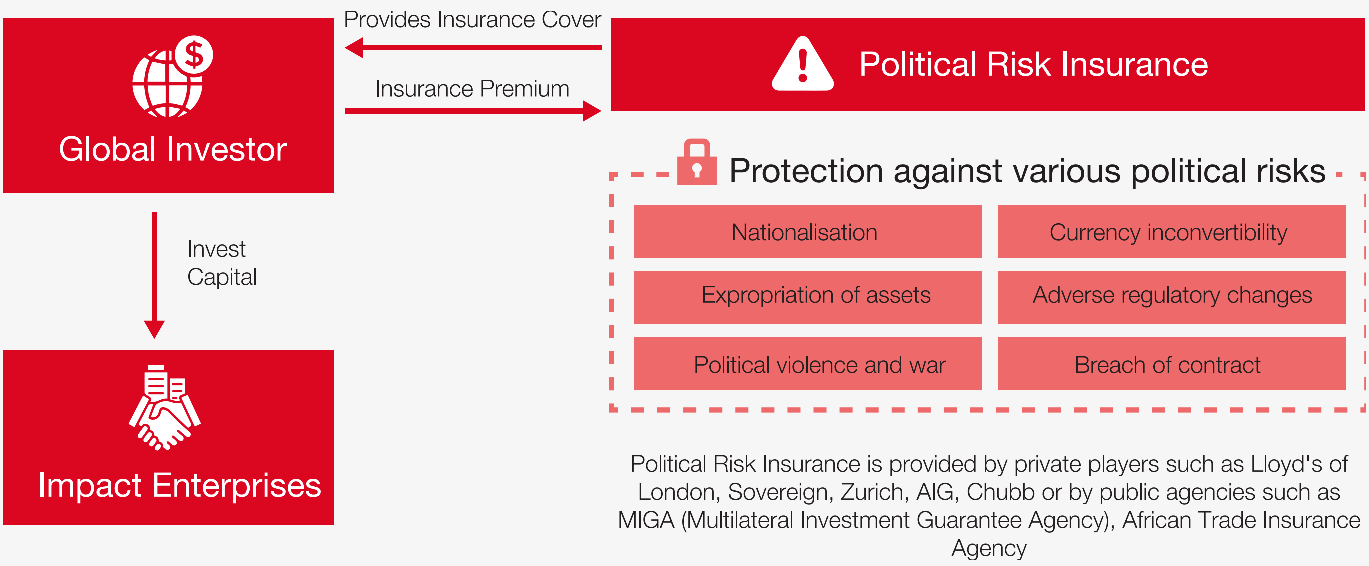
Proparco aims to create 430 direct jobs through the planned opening of 72 new branches. It also involves supporting an institution that is implementing an advanced social and training policy for its employees.

- *Investor (s): Proparco*
- *Amount: USD 25 Million*
- *Investment Type: Debt*
- *Year of Investment: 2020*
- *Sub - Sector: Banking*
- *Status: Ongoing*

Source: Proparco and Intellecap Analysis

Political risk insurance: It is one of the instruments available for investors to lower their risk exposure while investing in Mozambique. The Multilateral Investment Guarantee Agency (MIGA) supports more than USD 175 million of foreign private sector investments in Mozambique's energy and financial services sectors[126]. These investments are mainly in the infrastructure and financial services sector and are insured for political risk. Unfortunately, these guarantees have only been provided to large banks and other enterprises looking to invest in large scale projects. The smallest ticket size which MIGA has insured is more than USD 7.8 million. Foreign investors looking to invest in the country need to work with MIGA and other political risk insurance providers to create structured vehicles for investing in smaller enterprises across the country

Figure 20: Guarantee/ Political Risk Insurance Model Framework



Source: Intellecap Analysis

Blended Instruments: DFIs also use blended finance instruments to reduce risk and increase their investment effectiveness. Such instruments help to insulate the project from risks, assure other investors, and accelerate enterprise growth. Norfund has used a combination of convertibles (project development assistance), guarantees, technical assistance (environmental and social assistance), and equity investment to invest in Central Solar De Mocuba (CESOM), one of the largest solar plant in Mozambique with 40 MW of power.

Figure 21: Blended Finance Framework used in Mozambique

Project Development Assistance	+	Provision of Guarantees	+	Equity Investment	+	Provision of Environmental and Social Assistance
Funded the development phase of the project via a project development facility loan which is converted into equity if the project materialises		*Norfund issued three guarantees to make the project bankable and help reduce the projects PPA (Power Purchase Agreement) tariff*		*Norfund took a 22.5 percent stake in CESOM through KLP Norfund Investments which is a co-investment vehicle financed jointly by the mutual insurance company KLP and Norfund*		*Environmental and social initiatives including extension of the local NGOs engagement to ensure continuity of the livelihood restoration programme, malaria vector control programme among others*

Source: Intellecap Analysis

The three guarantees issued by Norfund included (i) a contingent equity guarantee- to cover the potential cost-overruns during the projects construction phase, (ii) a Debt Service Reserve Account (DSRA) guarantee -against the need of lenders for doubled financial reserves and (iii) a performance guarantee on behalf of the project company, should the project not perform as required under the concession agreement[127].

DFIs such as AgDevCo, IFC and others also use a ***combination of debt and equity to invest in an enterprise.*** The equity helps the enterprise in the long run and provides for large scale capital expenditures. On the other hand, debt is usually offered as a working capital loan to help the enterprise shore up its short-term finances. Over the past decade, AgDevCo invested more than USD 21 million in seven enterprises, most of which was a combination of debt and equity[128].

Case Study 16: Midal Cables Moz

MANUFACTURING

Midal Cables Moz

The project consists of the establishment of a greenfield aluminum rod and conductor manufacturing plant to be located in Boane district of Mozambique.

The proposed Project will be the sole aluminum rod, wire and conductor manufacturing facility in Sub-Saharan Africa serving markets throughout the region that previously have relied on imports from GCC, South Asia and the Pacific regions. The Project will be located adjacent to the existing Mozal aluminum smelter, which will supply the Project with raw material under a 10 year renewable contract.

- *Investor (s): International Finance Corporation (IFC)*
- *Amount: USD 40 million*
- *Investment Type: USD 35 Mn in Debt and USD 5 Mn in Equity*
- *Year of Investment: 2014*
- *Sub - Sector: Manufacturing*
- *Status: NA*

Source: Proparco and Intellecap Analysis

Technical Assistance: Technical assistance forms an essential aspect of many DFIs investments in fragile and frontier countries. Often financial services and agriculture & fisheries enterprises receive technical assistance. Apart from directly providing technical assistance to enterprises, DFIs have also developed programmes to support businesses in a particular area in partnership with a local agency. For example, The Embassy of Netherlands, in collaboration with the Zambezi Development Agency (AdZ), has created a programme 'SMEs Vale do Zambeze', which promotes the capacity of entrepreneurs in the Zambezi Valley (Tete, Manica, Sofala, and Zambezia provinces) with a specific focus on micro-enterprises[129].

Case Study 17: Mpesa Mozambique

FINANCIAL SERVICES

MPESA Mozambique

IFC will provide technical advisory services that will support MPESA in expanding its digital financial service. The technical assistance comprised of business modelling to help the client build a sustainable operation that is sensitive to pricing for consumers and commissions for the entire value chain, customer acquisition strategy, merchant proposition and product development which will also include business case development for new products like micro loans and savings, and building and managing an agent network.

- *Investor (s): International Finance Corporation (IFC)*
- *Amount: USD 3.9 million*
- *Investment Type: Technical Assistance (Grant)*
- *Year of Investment: 2017*
- *Sub - Sector: Mobile Money*
- *Status: Completed*

Source: IFC and Intellecap Analysis

ROLE OF DONORS IN THE IMPACT INVESTMENT SECTOR IN MOZAMBIQUE

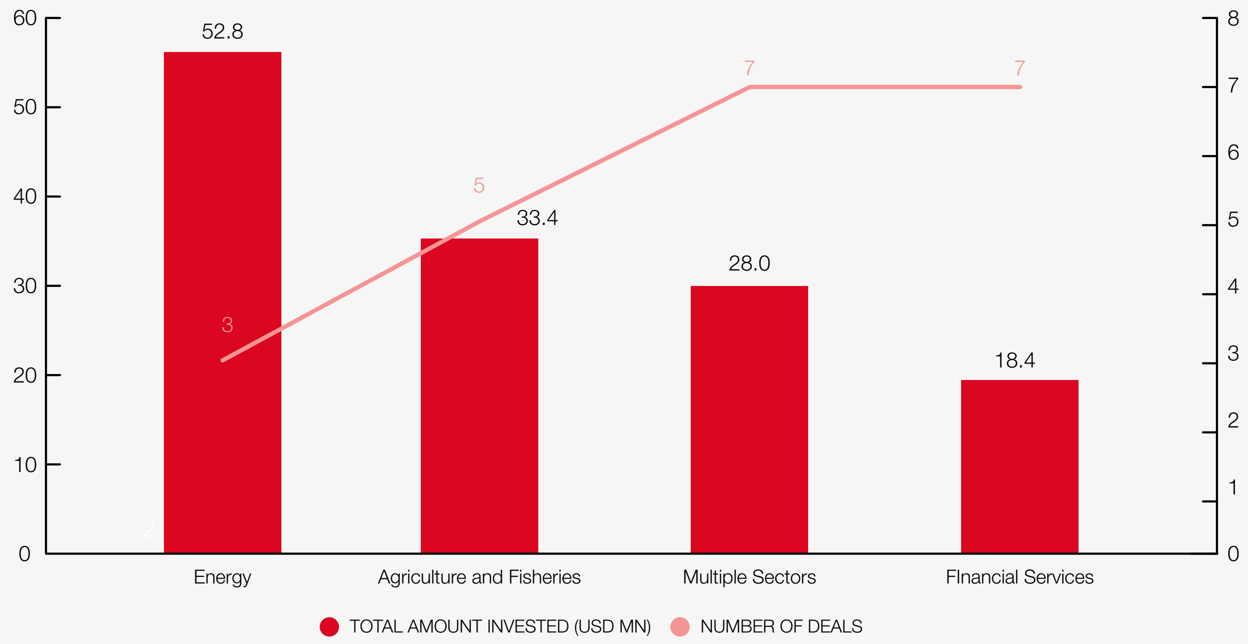
Donors play a crucial role in enterprise capacity development in Mozambique. Many donors provide grants and assist in providing support for enterprises concerning operational strategies, financial management, fundraising, and market building. While Mozambique receives a lot of donor support, most of the support in recent years has been towards humanitarian aid due to the advent of natural disasters, including cyclone Idai and cyclone Kenneth. Donors have invested more than ***USD 133.8 million in / through over 23 transactions*** towards private sector development. While the average deal size is small compared to DFI and Private impact investors, it is critical for the growth of the country's impact sector enterprises.

SECTOR PRIORITISATION BY DONORS:

While donor agencies are mostly sector agnostic, they prefer to support enterprises that can create the most impact, including agriculture & fisheries, healthcare, and clean energy sectors. Most of the donor investments were directed towards supporting Mozambique's government in various sectoral programmes, and only a small portion were dedicated to helping the private sector. Donors such as the Swiss Agency for Development Corporation, GIZ, FCDO and European Union provide grants to qualifying enterprises along with technical assistance and promote partnerships with enterprises from host countries.

Close to 40 percent of the total investments by donor agencies have been towards the energy sector, with an average transaction value of USD 17.6 million. Most of the investment deals by donors have been programmatic interventions that support private sector development across multiple sectors by offering technical advisory support, capacity building, development of enterprise networks, among others.

Figure 22: Donor investments across various sectors in Mozambique[130]

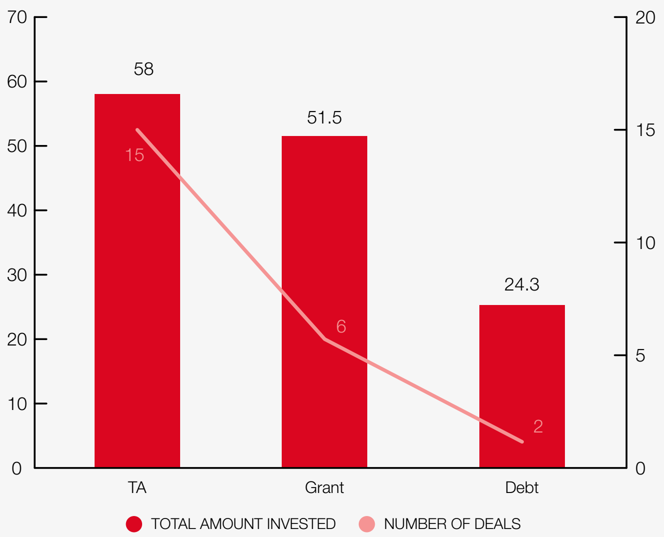


Source: Intellecap Analysis

INVESTMENT STRATEGIES OF DONORS:

Donors play a critical role in the development of the private sector in Mozambique. They provide grants, technical assistance and often assist with the overall ecosystem development. This, directly and indirectly, helps the private sector and impact enterprises growth in the region. ***Technical Assistance constitutes more than 65 percent of the total number of transactions;*** due to the low level of support available for impact sector enterprises across the country. Donors also provide grants through competitions and call for applications. Many of the impact sector enterprises do not understand the procedures and documentation required to apply for these grants. Consequentially only a few enterprises end up receiving these grants. Donor agencies have tied up with ecosystem enablers, including incubators and accelerators, to source these applications and provide grants.

Figure 23: Investing Instruments used by Donors in Mozambique[131]



Source: Intellecap Analysis

PROVISION OF GRANTS TO ENTERPRISES

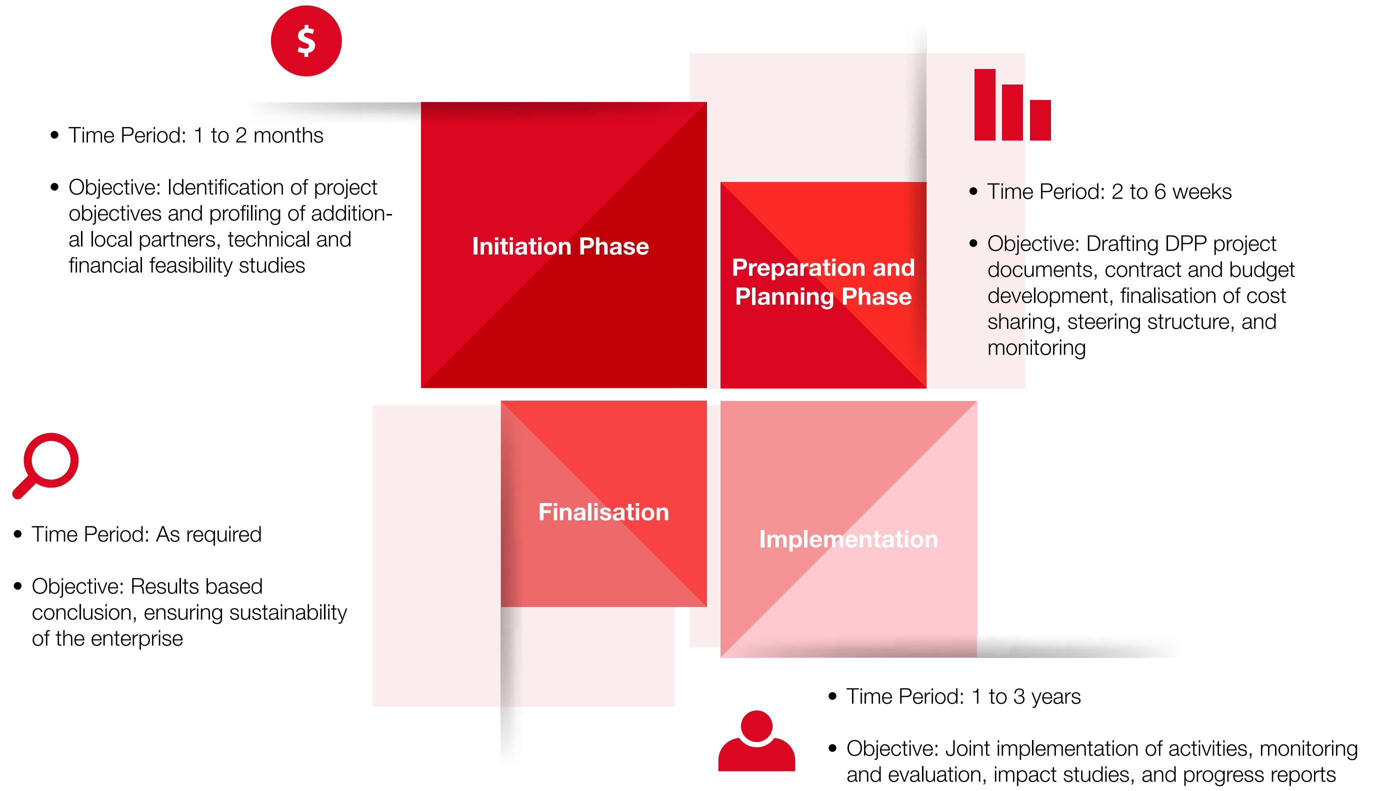
Some donors provide grants to European enterprises to invest in partnership with Mozambican entities. They also facilitate partnerships that result in the sustainable development of Mozambican commercial capacity. Some donors that follow such a model are the Austrian Development Cooperation (ADC) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The GIZ programme provides matching grants of up to EUR 200,000, which should form less than 50 percent of the total investment. The additional 50 percent has to be invested by the enterprise for a minimum duration of one year. The programme also provides a grant of a max of 50 percent or up to EUR 17,000 (approximately) for a feasibility study for such an investment. The grant applies to investments that meet the following criteria:

- Long term investment in Mozambique
- Importing goods from Mozambique, thereby generating economic activity in the country
- A business model that is expected to generate turnover and profits in Mozambique
- Contribute to the local social, ecological, or economic environment of Mozambique

As part of this programme, GIZ has partnered with GAPI to ***strengthen the production of local products and enhance women's economic situation through access to microfinance.*** The partnership resulted in increased locally sourced fruits and vegetables by 28 percent and has benefitted over 6,300 members in over 90 farmer associations[132].

Donors also engage in public-private partnerships (PPPs) with Mozambique enterprises to improve their operational capabilities, increase productivity, and enhance market reach. GIZ has launched the Development Partnerships with the Private Sector (DPP) programme, a partnership between a private sector entity in Mozambique and GIZ that combines business interests and economic development goals for mutual benefit. Only enterprises which have a turnover of more than USD 20,000 per annum are considered under the programme. These enterprises receive a contribution of USD 20,000 to USD 220,000 under the programme. The private sector entity has to contribute at least 50 percent of the total investment cost with a duration of one to three years.

Figure 24: GIZ Development Partnerships with the Private Sector Programme (DPP)



Source: GIZ and Intellecap Analysis

Results for the Private Sector	Development Objectives for GIZ
• *Access to additional supply of approximately 10 tons of fresh tilapia per year* • *Increased turnover and profits due to cost efficiency* • *Access to technical expertise and better skilled workforce in aquaculture* • *Reduction of fish feed import from South Africa, thereby promoting local economy*	• *Local fishermen have additional income through tilapia production* • *Increase in food security and resilience for local fishermen and farmers* • *A viable model for replication in other coastal areas of Mozambique*

GIZ has implemented the DPP programme with a local tourism operator to develop commercially viable and inclusive tilapia production. As part of the programme, the local fishermen supply tilapia to the tourism operator in a reliable, cost-efficient manner. The programme offers substantial benefits to both the tourism operator and the local fishermen.

Some international agencies, such as Global Alliance for Improved Nutrition (GAIN), *provide sector-specific grants* up to USD 125,000 for enterprises in agriculture working on a nutrition-enhancing idea and concept. Programmes such as the Southern African Solar Thermal Training and Demonstration Initiative (SOLTRAIN), funded by the Austrian Development Corporation, aim to increase the use of solar energy by grant financing 50 percent of the cost of solar units and also to provide training and installation (for up to 50 individuals).

Some of the grants are region-specific and intend to develop entrepreneurship in that region. The FinAgro programme, funded by USAID and the Government of Mozambique, is designed to increase agricultural enterprises' competitiveness in cash crops in specific economic corridors of Zembeze Vale, Beira, and Nampula. The programme worked towards strengthening 77 agricultural SMEs by providing grants between USD 3,800 and USD 72,800[133]. These investments helped the enterprises increase their revenues by 67 percent, generate employment for more than 518 individuals, and contribute an additional USD 3.5 million to Mozambique's rural economy[134].

Provision of technical assistance: Business and technical capacity is seen as a critical area of improvement for most Mozambican enterprises. Many enterprises are unaware of technological advancements, documentation and corporate governance procedures and lack access to markets. As a result, many of these enterprises are unable to achieve the scale necessary to attract venture investments. Some global development organisations, such as SNV, Netherlands Development Organisation, have created technical assistance programmes in partnership with VC4Africa and Nijenrode University to provide complete support for Mozambican enterprises to build inclusive businesses. The technical assistance facility has supported more than 21 SMEs in Mozambique in developing inclusive business models that were commercially viable and included low-income groups in their value chain[135].

Figure 25: Components of technical assistance of the SNV programme

Market Intelligence and Opportunity Identification	*identifies opportunities within companies for developing Inclusive Businesses through market intelligence and scoping studies and screening for market opportunities*
Inclusive Business Plan Design and Implementation	*design and implement Inclusive Business plans in collaboration with participating companies and communities along with Branding & Marketing*
Creating New Relationships	*brokers relationships between companies and financial institutions to attract investment*
Capacity Development	*build capacities in participating companies and communities including operational process improvement, product design and others*
Monitoring and Evaluation	*design and implement monitoring and evaluation systems and evaluate impact of Inclusive Businesses*
Policy Recommendations	*leverage direct experience in implementing Inclusive Businesses and research findings to develop public policy recommendations conducive for advancing Inclusive Business*

Source: SNV and Intellecap Analysis

ROLE OF PRIVATE IMPACT FUNDS IN THE IMPACT INVESTMENT SECTOR IN MOZAMBIQUE

Private investments in Mozambique have increased over the years. While extractive sectors attract the most private investments, the impact sectors including agriculture, healthcare, water and sanitation, and financial inclusion have also seen some investments. ***Private impact investors have invested more than USD 614 million across more than 29 deals***[136]***.*** Private impact investors such as Thirdway Africa, Aquaspark, Beira Agricultural Growth Corridor (BAGC) Catalytic Fund, Arise Fund and others played a crucial role in leading the growth of impact sectors in Mozambique

Table 4: Summary of activities of Impact Investors in Mozambique between 2005 and 2019[137]

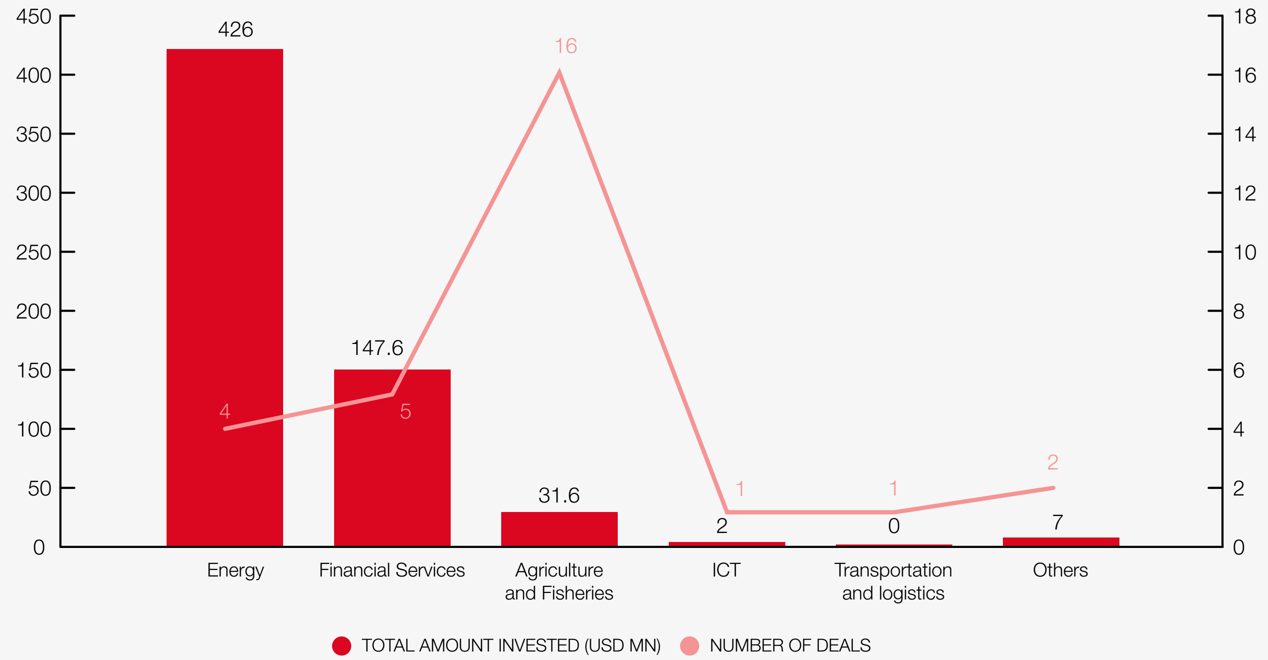
Name of the Private Impact Investor	Capital Deployed (USD Mn) (2005 – 2020)	Sector Priorities	Key Investment Strategies
Source Capital	*430 Mn*	*Energy, Financial Services, ICT*	*Equity*
Arise Fund	*143 Mn*	*Financial Services*	*Equity, Debt*
Thirdway Africa	*27 Mn*	*Agriculture & Fisheries, Others*	*Equity*
Beira Agricultural Growth Corridor (BAGC) Catalytic Fund	*2 Mn*	*Agriculture & Fisheries*	*Blended Finance, Debt, Grants, Equity*
CFC (Common Fund for Commodities)	*2 Mn*	*Agriculture & Fisheries*	*Debt*
Goodwell Investments	*2 Mn*	*Agriculture & Fisheries*	*Equity*
Africa Enterprise Challenge Fund (AECF)	*1.25 Mn*	*Agriculture & Fisheries*	*Concessional Capital, Debt*
Aquaspark	*1 Mn*	*Agriculture & Fisheries*	*Equity*

Source: Intellecap Analysis

SECTOR PRIORITISATION OF IMPACT FUNDS:

Agriculture & fisheries, financial services, and energy are the major investment sectors for private impact investors in Mozambique, constituting more than 98 percent of investments by value. Most of the energy investment has been in renewable energy across the various wind and solar power plants in Mozambique. Investments in financial services focus primarily on banks and microfinance institutions with an average deal size of USD 29.44 million. The agriculture & fisheries sector had 16 deals but only accounted for USD 31.6 million of investment with an average deal size of less than USD 2 million.

Figure 26: Private Impact investments across various sectors in Mozambique[138]

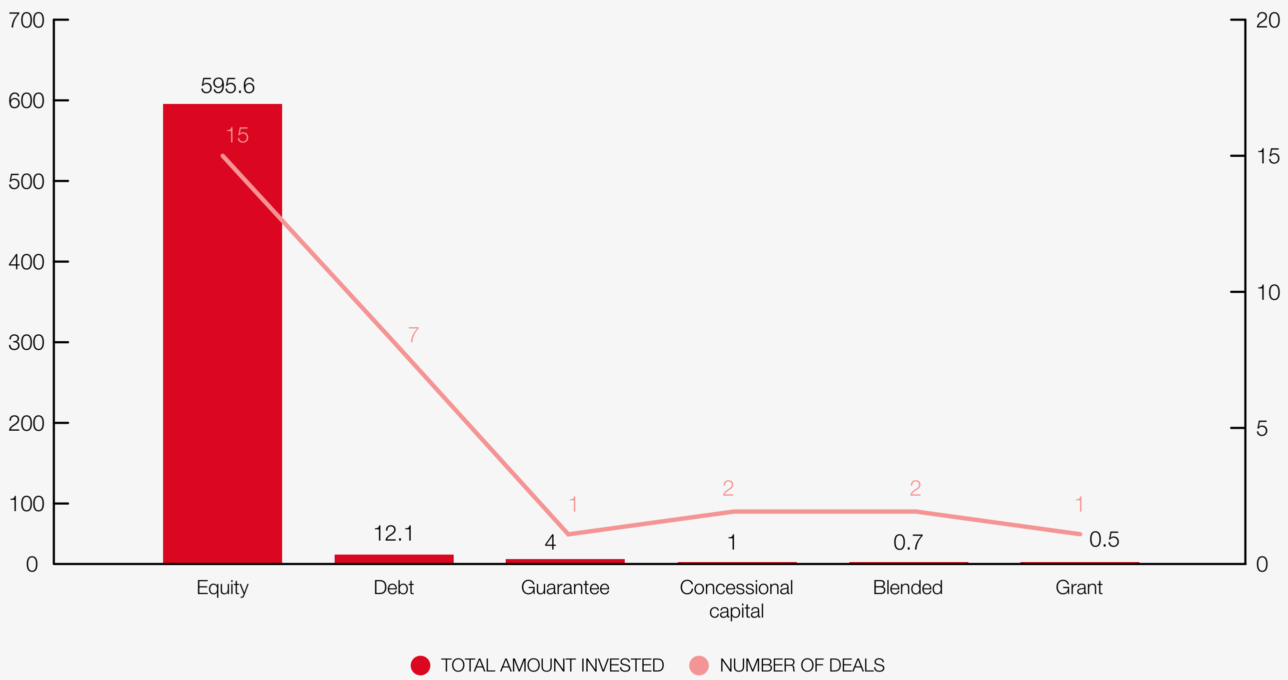


Source: Intellecap Analysis

INVESTMENT STRATEGIES OF IMPACT FUNDS

The impact sector enterprises in the country are still in the nascent stages and require small ticket investments. ***Most of the impact enterprises belong to the agriculture, fisheries, and energy sectors and have an investment requirement of less than USD 50,000.*** Equity remains the dominant form of investment across impact sectors, with more than 70 percent of investments in the agriculture and fisheries sector and 90 percent of investments in the energy sector. Some investors such as the Beira Agricultural Growth Corridor (BAGC) Catalytic Fund, have also provided concessional capital (zero percent debt) and innovation grants to agricultural enterprises.

Figure 27: Investing Instruments used by Private Impact Investors in Mozambique[139]



Source: Intellecap Analysis

Angel investment is at a very nascent stage in Mozambique. Mozambique Association of Business Angels (AMBA) was formed in 2019 to provide advocacy, brokering, and investment facilitation for these enterprises. Individuals can buy into the fund with a minimum investment of USD 5,000. The association uses these funds to invest in enterprises across the country, with an average investment of USD 10,000 to USD 15,000. In its first year of operation, AMBA focused on the capacity building of the institution. However, progress has stalled due to the ongoing Covid-19 pandemic. The investors have a wait and watch approach to investing at the moment. The association also believes that a venture capital model might not be the right fit for Mozambique as it pushes enterprises to expand at an unreasonable pace. Most of Mozambique enterprises are based in Maputo, situated at the country's extreme southern end. These enterprises often face infrastructure challenges limiting their growth into other parts of the country.

Repayable grants are also a valuable mechanism to boost entrepreneurship in fragile countries. While enterprises do not have the burden of interest payments, they are obligated to return the original grant ensuring the fund is spent only for business purpose. Institutions such as the Africa Enterprise Challenge Fund (AECF) gives grants and repayable grants to private sector enterprises. It supports innovative business ideas in agriculture, agribusiness, renewable energy, adaptation to climate change and access to information and financial services. These grants of USD 250,000 – USD 1.5 million are only available to for-profit enterprises with two years of audited accounts. The enterprises are expected to contribute 50 percent of the cost of the project, with AECF matching the enterprise contribution[140]. Private impact investors have been wary of investing in Mozambique due to several reasons, including the currency fluctuations, a certain level of political instability, and high cost of capital in the domestic market post their investment. The hidden debt scandal has also significantly impacted investors' confidence in the country's overall political and economic stability. However, the perception is slowly changing with increasing FDI and the stabilising Metical over the last four years. Investors such as ThirdWay Africa have tried raising funds to invest in the agriculture sector but were significantly impacted by the hidden debt crisis. To overcome the challenge of fundraising in a defined period, ***ThirdWay Africa has set up a permanent capital vehicle (PCV) to invest across various sectors in Mozambique.*** Some of the primary reasons for setting up the PCV are as follows:

- The potential longer life of the instrument enables longer hold strategies on ThirdWay Africa investments in the country and the ability to ride out short term volatility which is considered a critical obstacle for many investors.

- The ability to have multiple rounds of fundraising is a potential game-changer for Mozambique. This is because funds can be raised by showcasing the growth of their current investments. This was one of the significant reasons for ThirdWay Africa opting for the PCV structure as they would be able to get more investors by showcasing the growth of their portfolio of investments.

- The capital vehicle does not have to periodically go to the market to raise funds during uncertain times but can only do so when the market conditions are favourable.

Figure 28: Differences between a typical fund and a permanent capital vehicle structure

	Typical Fund	Permanent Capital Vehicle
Fundraising period	12 – 18 months, after which no new commitments are sought	Can fundraise either continuously or through multiple rounds of funding
Lifecycle	Limited life – typically 10 – 12 years with a 1 or 2 year extension	Many continue indefinitely
Proceeds	Will distribute proceeds to the investors	Have the flexibility to reinvest some or all of the proceeds into future projects (Based on approvals)
Redemption rights	Cannot redeem in the middle of the fund cycle (other than investor-driven termination clause)	Can allow investors rights to redeem their investment and achieve liquidity at set periods

Source: Intellecap Analysis

ThirdWay Africa has invested USD 20 million in Wanza Farms, a 2,500-hectare soybean and maize farm in Mozambique, and is committed to further supporting the enterprise based on future requirements. They have also invested USD 5 – 10 million in Mozambique Quarry Partners, which has licences for stone mining across the country. ThirdWay Africa tends to invest in export-oriented enterprises in Mozambique, where the revenue is generated in the US Dollar, to overcome the currency risks posed by the Mozambican Metical.

Crowdfunding is a relatively new form of financing for Mozambican enterprises. In this model, individuals or groups of people pool capital and other resources to finance Mozambican enterprises. Social initiatives such as Stichting Connect International often use donation-based crowdfunding campaigns, such as the One Percent Club, to raise funding. The initiative realised their School Project Mozambique utilising this platform and raised USD 2,000[141]. Other platforms, such as Leetchi and Afrikstart, also provide similar donation-based crowdfunding services to various Mozambique campanies. Reward-based crowdfunding campaigns allow backers to contribute funds in exchange for non-monetary rewards. Many of the popular crowdfunding platforms, such as Kickstarter and Indiegogo, use the reward-based model. Still, most of them have restrictions related to foreign bank accounts and payment services which Mozambique startups cannot entirely comply with However, some regional stakeholders, such as Novo Banco, are creating crowdfunding options for Mozambique startups. Novo Banco, based in Portugal, has financed more than 116 projects, including 10 in Mozambique[142]. Equity-based crowdfunding is still in its nascent stages in Africa, mainly due to the intense compliance requirements, in-depth legal and financial due diligence processes, and individual investors' education levels.

On the other hand, debt-based crowdfunding models have started gaining traction in Mozambique. Some enterprises such as SolarWorks! have launched crowdfunding campaigns on Lendahand (Netherlands based crowdfunding platform) to raise USD 118,000 for installing the solar home system in 1,000 homes in Mozambique. SolarWorks! successfully raised the requisite amount paving the way for future debt-based crowdfunding campaigns in Mozambique[143].

Case Study 18: AfriFruta

AGRICULTURE

AfriFruta

AfriFruta builds and manages fruit supply chains in Inhambane province. AfriFruta has reached over 2,000 local smallholder farmers through direct sourcing and buying stations, connecting them to local and international markets. It also provides technical support for maintaining quality standards, and actively engages local women in agriculture with over 80% of its farmer base being women.

With additional funding from AECF, AfriFruta is setting up an ultramodern processing facility, complete with FSSC 22000-certified processing lines, and has created 110 new jobs, 88 percent of which are held by women.

- *Investor (s): Africa Enterprise Challenge Fund (AECF)*
- *Amount: USD 0.45 million*
- *Investment Type: Debt*
- *Year of Investment: NA*
- *Sub - Sector: Horticulture*
- *Status: Active*

Source: AECF and Intellecap Analysis

A fluid political system coupled with violence and security issues is considered a critical challenge for some potential investors. Investors do not have the confidence that major policy changes wouldn't be brought in by the next government, which would affect their investments. Also, the Cabo Delgado province's violence can derail some of the significant investments in the Oil and Gas industry, which would be detrimental to the country's investment climate.

> *"High cost of capital down the road is a challenge which investors consider while investing. For all the enterprise needs post equity investments, the cost of capital is more than 20 percent which is not sustainable for the growth of the enterprise and which might not provide investors with the expected returns."*
>
> *Investment Manager – International investor investing in Mozambique*

> *"SME lending is viewed as very risky by banks and other financial institutions in Mozambique. Prohibition on land ownership curtails the ability of individuals to use land as collateral for getting loans."*
>
> *Director Relationships - Africa – USAID*

> *"Lack of legal instruments is a problem for early stage funding in the country. Syndication and creation of an angel fund are cumbersome and tedious processes which often take a lot of time as there are no clear rules."*
>
> *CEO – Incubator based in Maputo*

The lack of legal instruments for the creation of funds is a significant issue. Syndication is a considerable problem (creation of a fund) with the Central Bank of Mozambique. According to the law, there is a restriction on the creation of investment funds in Mozambique. The country's legislation has no mention of trust. Femme (Associação das Mulheres Empreendedoras e Empresárias de Moçambique) the women SME association in Mozambique wants to establish a trust for women, but are unable to do so. They have formed a syndicate, but under the rules, cannot invest more than USD 30,000 per enterprise. As an alternative, the association is exploring investing in the stock exchange as the exchange has the mandate to invest in SMEs. Impediments such as these often curtail free market investments and can be a hurdle for commercial investments in the country.

Bureaucracy in Mozambique is often cited as one of the critical challenges facing investors. The government has created Agência Para a Promoção de Investimento e Exportações (APIEX) as a one-stop destination for foreign investors looking to invest in the country. However, investors often report bureaucracy within the system as an impediment. Angel investors in Mozambique can invest informally in enterprises and need the central bank's approval if they are looking to formalise the process, which is a long and tedious endeavour. The approval process entails having a fund manager whose qualifications are not specified and are open to the Central Bank's interpretation. Some of the informal rules of investing in the country include informing the Central Bank of the investment duration when investing in the enterprises. Failing to do so often results in issues during repatriation. It is challenging for investors to mention this beforehand and creates doubt in the minds of investors. Despite APIEX being a federal body to primarily cater to investors' needs, many of the documents are only available in Portuguese, making it difficult for investors from other countries and regions to access information on the rules, regulations, and incentives in Mozambique. The government of Mozambique has taken many steps to reduce bureaucratic processes for investing in the country. Some of them are as follows:

• FDI is no longer subject to prior authorisation of the Bank of Mozambique. It only needs to be registered with the commercial bank handling the transactions.

• The obligation to convert half of the revenues resulting from the export of goods and services and foreign investment income into local currency is no longer in force. Resident entities are now allowed to hold the funds in foreign currency. Despite the law being no longer in force, many investors and enterprises do not know about the revised rules. Therefore, it is stillconsidered as a significant obstacle when investing in the country.

• A special foreign exchange regime granting more flexibility in foreign exchange and financing operations has been introduced for the oil, gas, and mining sectors. The Ministry of Economy and Finance is now able to approve the use of U.S. dollars if the company (a) has invested at least USD 500 million and (b) more than 90 percent of its transactions are in U.S. dollars.

Corporate governance is also cited by many investors as a significant challenge while investing in the country. Enterprises in the impact sector often lack records showcasing funds, revenue receipts, and audited financials, critical for securing investments. Many DFIs have stringent corporate governance requirements and often require documents from the enterprise's establishment (to showcase the source of funds). Many enterprises in Mozambique do not possess these documents and, as a result, often end up without investor financing, which could have catapulted their business.

Lack of investable enterprises has also been cited as a common challenge by many DFIs and private investors. This is partly due to the lack of investor presence on the ground, leading to the high cost of due diligence. Many of these investors largely depend on incubators and accelerators for investment leads or donor agencies and NGOs with a presence on the ground—some of the DFIs co-invest in enterprises and programmes to reduce their due diligence costs.

05

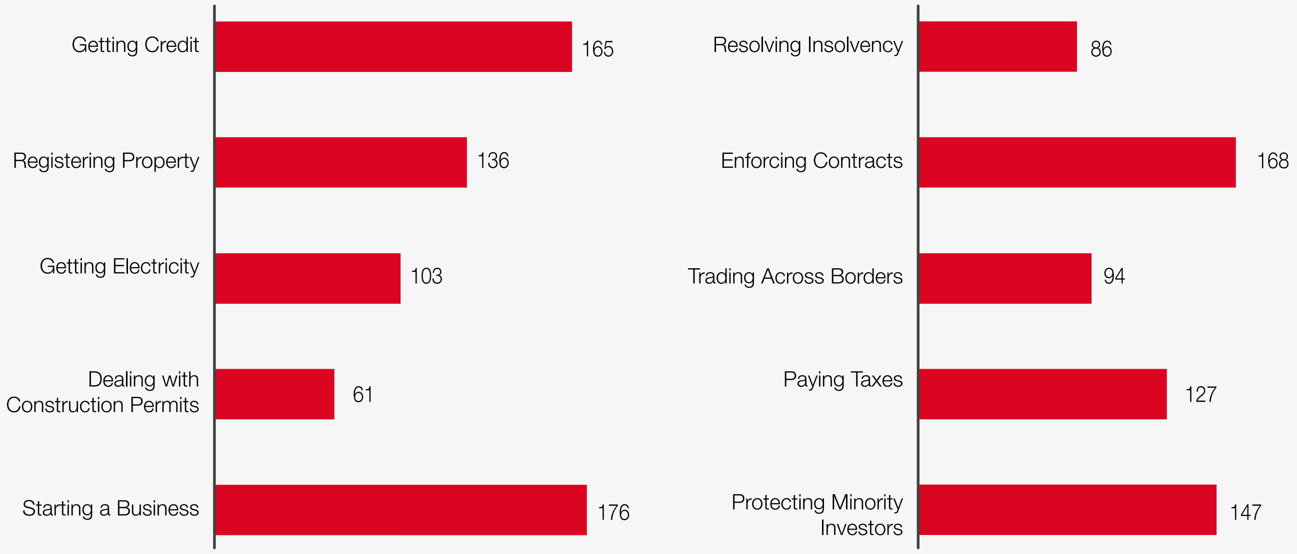
ENABLING ENVIRONMENT FOR SOCIAL ENTERPRISES & IMPACT INVESTORS IN THE REGION

The assessment of the enabling environment for social enterprises includes a review of the existing policies and regulations for private sector development in the country. The section also covers the landscape assessment of Ecosystem Support Organisations (ESOs) in Mozambique. The evaluation of the entrepreneurial support agencies is based both on desk research and conversations with ESOs from the country.

OVERVIEW OF THE POLICY AND REGULATORY LANDSCAPE FOR THE PRIVATE SECTOR AND INVESTORS IN MOZAMBIQUE

The country lags behind its regional counterparts in the Ease of Doing Business attributed to challenges in accessing finance and implementing regulations. The country ranked 138 out of 190[144] countries in the World Bank's Ease of Doing Business (EoDB) Index in 2020. Specifically, the country ranked unfavourably in parameters such as starting a business, enforcing contracts, getting credit, and protecting minority investors. The EoDB score decreased to 55 in 2020 from 56.9 in 2015 (when it was ranked 127th)[145]. Further, the country ranked 146 out of 180 countries in the Transparency International Corruption Index 2019[146], indicating bureaucracy and red tape in the business process environment.

Figure 29: Ease of doing business parameters in Mozambique, 2020



Source: World Bank

The Government of Mozambique has taken positive steps towards attracting private sector investment with the establishment of ***APIEX, which will act as the nodal agency for all investors,*** both foreign and domestic. For investments to be carried out in Special Economic Zones, Free Industrial Zones or outside those areas, the investment project proposal must be presented to APIEX. These applications should be submitted on the official forms, preferably in Portuguese, which is a cause of concern for foreign investors as most of the laws and official documents are only available in Portuguese.

The Investment Act provides a set of guarantees and incentives to promote investment in Mozambique, which can be classified into three large groups:

- ***Protection of property rights:*** The Mozambican State guarantees the security and legal protection of the ownership of assets and rights, forming part of the authorised investments.

- ***Transfer of funds abroad:*** Profits resulting from investments eligible for export of profits under the Investment Act Regulation along with royalties or other income, amortisation and interest on loans taken out on the international financial market and applied in investment projects carried out in Mozambique

- ***Tax Benefits:*** The investment act provides a wide range of tax benefits for foreign investment in Mozambique, including exemption from payment of customs duties and value-added tax on certain capital goods, 5 – 10% tax credit for investment, accelerated depreciation and amortisation for certain investments among others.

Foreign exchange flow is still tightly regulated by the Government through the Bank of Mozambique. All foreign-exchange transactions are subject to tight registration. Non-residents require prior authorisation of the Bank of Mozambique for (i) transactions in domestic currency, (ii) opening and using accounts in foreign currency, (iii) account used in international settlements or payments, (iv) granting credit to residents in foreign currency, (v) transfer to and receipt from abroad of monetary instruments or means of payment, (vi) exchange-rate arbitrage (vii) import, export or re-export of foreign currency or other means of payment as well as bills of exchange, (viii) promissory notes and invoice statements (ix) shares or bonds, whether domestic or foreign or coupons (x) public debt securities.

Under Mozambican law, the ***State owns the land and it cannot be sold or otherwise disposed of or encumbered.*** However, the law provides for an enterprise to lease the land. However, foreigners may only acquire land on lease provided they have an approved investment project and meet the following conditions:

- If the person has stayed for at least five years in Mozambique

- If the business was incorporated or registered in Mozambique

The securities market is also under the Bank of Mozambique's ambit, which monitors, supervises, and inspects the stock market's activities. While this is not much of a concern for foreign and domestic investors, some of the investors/stakeholders are uncomfortable given the concentration of authority in one statutory body.

The hiring of foreign citizens is also strictly regulated by the Government through the Labour Act. Under the law, no foreigner can be hired on the company's permanent rolls, and the contract has to be renewed after every two years. The number of foreign employees also depends on the type of organisation.

IdeaLab Mozambique

ideaLab, launched in 2010, is a local incubator/accelerator programme that also offers co-working space in Maputo. The incubator has trained 1,095 entrepreneurs in 2019 and over 3,200 in the past four years. The incubator charges a standard fee per month for enterprises using its co-working space. More than 98 percent of entrepreneurs report that they have improved their business management skills due to ideaLab support. More than 63 percent of business owners associated with ideaLab, employed at least one new employee. It also partners with various donor and private sector partners to fund its incubation programme and launches multiple initiatives to assist enterprises' growth. The organisation, in partnership with the Embassy of the Kingdom of Netherlands, runs Orange Corners Maputo. It is a space where young university students have access to everything they need to launch their ideas. Services include practical workshops, mentoring, events, masterclasses, business coaching, exposure to markets, and opportunities, along with a workspace. The organisation also partners with Impacto Capital on a platform called PME Pronta for the acceleration of financing for SMEs through an integrated support service that includes the preparation, application and management of bank financing

ECOSYSTEM SUPPORT FOR SOCIAL ENTERPRISES

Many of the interviewed enterprises have stated the need for technical assistance as one of the critical components of their future business growth. Enterprises require high standards of documentation and corporate governance procedures to receive funding from DFIs and other international donors. Many local enterprises are unable to meet these standards and are often rejected by investors. ESOs help these entrepreneurs streamline their business, document their journey, and secure grants and other financial assistance. They also provide technical assistance and market access for goods and services produced by the enterprises. Ecosystem stakeholders include incubators, accelerators, NGOs, foundations, and consultants working towards enhancing Mozambican enterprises' capabilities.

The enterprise support ecosystem is slowly gaining pace in Mozambique. Incubators such as ideaLab, Standard Bank incubator, RLabs, Maputo Living Lab and others provide much-needed support for enterprises. The incubators and accelerators offer support for enterprises in many areas, including:

- Business model development and implementation support
- Capacity building and mentorship
- Information and knowledge sharing
- Peer-to-peer support through sharing common spaces
- Networking events and access to critical startup resources

Most incubators are sector agnostic and support private enterprises at different growth stages. Some incubators, such as ideaLab, focus more on early-stage enterprises and have trained more than 3800 entrepreneurs in the last ten years. They are slowly focusing on mature SMEs to increase their scale and export their products and services. Many incubators often rely on grants from donors and corporates, including FCDO, GAIN, Shell, SNV, BCI, and others, to fund their operations.

CHALLENGES FACED BY ESOS IN MOZAMBIQUE

• ***Lack of focus from DFIs and other funding institutions:*** Many DFIs and donors provide credit guarantees and funds to banks and financial institutions to on-lend to enterprises. But these financial institutions often have stringent documentation and collateral guidelines. As a result, many enterprises cannot access these funds, and only a select group are routinely given loans through these financial institutions.

• ***Weak regulatory environment:*** Although Mozambique has many laws and regulations to support enterprises and investors, implementation challenges, leading to lengthy delays in starting and operating an enterprise, acts as a critical impediment. Incubators also have to face these challenges while assisting enterprises in setting up their operations

• ***Challenges in offering customised support:*** Given the vast differences in Maputo's entrepreneurial landscape and other parts of the country, ESOs often find it difficult to consolidate their offerings across the country. As a result, the services of these ESOs are available only in Maputo and to an extent in Beira and Nampula.

06

RECOMMENDATIONS ON INNOVATIVE IMPACT INVESTMENT MODELS FOR PROMOTING PRIVATE SECTOR IN MOZAMBIQUE

Impact investing has the potential to be a significant driver of growth for Mozambique. The country has some critical impediments for foreign and domestic investors relating to the regulatory environment. Despite DFIs investing sizable funds in Mozambique's social enterprises, there seems to be little interest from private impact investors. This is due to (i) lack of government focus on sectors other than the extractive industries, (ii) lack of clarity on regulatory mechanisms for investing in the country, and (iii) investment-related bureaucracy. Due to their small operations and funding requirements, Mozambican enterprises are unable to use many investing instruments available worldwide.

Enterprises in the impact sector, including agriculture, healthcare, clean energy, water and sanitation and others, are often bootstrapped and do not raise any form of external funding. This is mainly due to the high financial cost and the intense bureaucratic process that needs to be followed to obtain financing from a bank or other financial institutions. Most enterprises follow an organic growth path by reinvesting their profits, which limits their rate of growth. Although large-scale enterprises can raise funding from international investors and DFIs, there is minimal funding available to MSMEs or Micro and small enterprises and theyrely primarily on family and friends.

Figure 30: Recommended Investment Models in Mozambique

Proposed Model	Description	Pros	Cons	Examples
Returnable Grants	*Grants which are repayable at a zero percent interest rate*	*Investors can evaluate the enterprise for further investments while the enterprise gets access to much needed investment at a low interest rate*	*Can distort the market by providing subsidised finance only to selected enterprises*	*Africa Enterprise Challenge Fund (AECF) loans to Phoenix Seeds in Mozambique*
Blended Finance with Technical Assistance	*Mix of concessional and commercial capital along with funds for techincal assistance*	*Financial institutions can gauge the extent and scale of their operations if they lend to impact enterprises on a long term basis*	*Lengthy and laborious process which involves constant presence on the ground*	*Blended finance for micro enterprises in Cambodia*
Project Financing	*Project finance provides for off-balance sheet financing which does not affect the credit of the shareholders*	*Protects the credit of the shareholders in case of the project failing*	*Administrative complexities coupled with lengthy contracting processes*	*Norfund's investment in Central Solar de Mocuba (CESOM)*

Source: Intellecap Analysis

A. RETURNABLE GRANTS

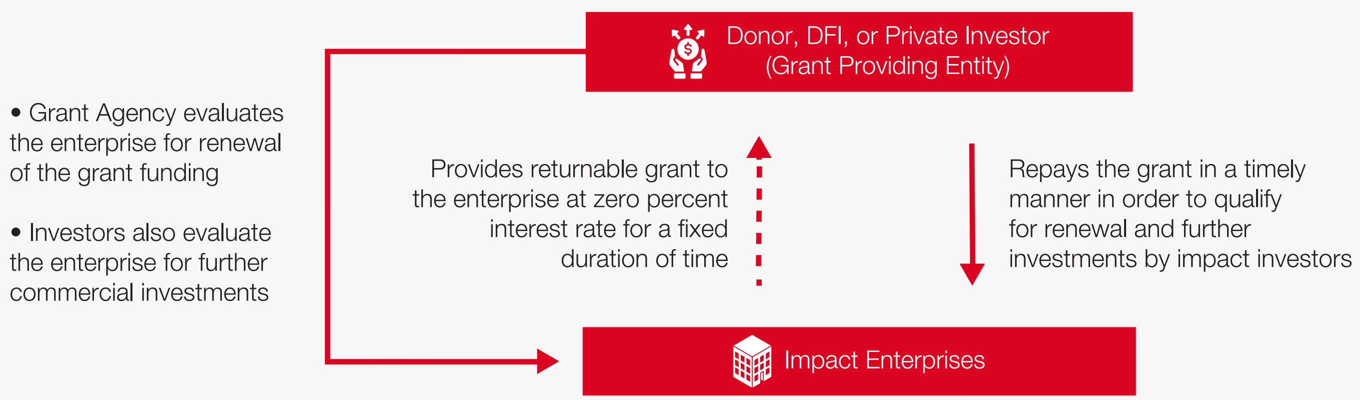
Early-stage investing is most crucial for enterprises in Mozambique. Most early-stage enterprises require assistance in the USD 20,000 – 50,000 range. To provide such huge grants would be very difficult for most DFIs. On the other hand, this would be a very small investment and would not make commercial sense for many international investors. Returnable grants can be tied to the purchase of an asset, which can be linked to the grant. ***Returnable grant or zero percent loans*** would be the ideal instrument for many of the enterprises in Mozambique for two reasons:

- It would be a sustainable process, and many enterprises can benefit from these loans
- DFIs and international investors can also conduct due diligence during this phase and decide on the investability of the enterprises

IMPLEMENTATION MODEL: RETURNABLE GRANTS

Traditionally, returnable grants are provided to social enterprises which do not have a sustainable business model and are focused more on creating impact on ground. These grants are only meant for a specific use, and the enterprise cannot utilise them for general administrative expenditures or other capital investments. DFIs, donors, and other impact institutions need to let go of these barriers and provide all-purpose returnable grants to be freely utilised by enterprises. These grants should be of lower value and should be renewed every year in the beginning. The grant amount and tenure can be extended based on the confidence gained by the DFIs and donors. Impact investors can also partner with DFIs and donors to provide these grants to evaluate the enterprise's investment readiness based on the repayment schedules, usage patterns, and other necessary parameters.

Figure 31: Structure of a returnable grant model



Source: Intellecap Analysis

Case Study 20: Phoenix Seeds

Phoenix Seeds is a commercial hub and out-grower business which aims to produce, process and distribute new, improved and locally-adapted seed varieties for grains and pulses. These will be grown by both large-scale and smallholder farmers, including Phoenix Lda's farm, and supplied into a central hub based at Phoenix Farm, for processing and distribution. As market demand expands, additional production and processing hubs will be established throughout Mozambique, sourcing from large-scale and smallholder farmers, aiming to make Phoenix Seeds Mozambique's premier seed producer and distributor. Phoenix Seeds has received a USD 200,000 five year interest-free loan from the Catalytic Fund. The Central Bank has approved the loan agreement. Phoenix Seeds has also been awarded a USD 800,000 five year interest-free loan from Africa Enterprise Challenge Fund (AECF)

Incubators and accelerators have a deep understanding of the startup ecosystem in Mozambique. Some of the incubators, such as IdeaLab, have been operational for many years and have diverse enterprises. Investors and grant providers can partner with the incubators and provide the enterprises with small funding to assess the enterprise's progress and subsequently scale their financing. This reduces the risk for the investors who are apprehensive of enterprises' quality and scale in the country.

ADVANTAGES OF RETURNABLE GRANTS

• Provide impact enterprises with access to concessional financing, thereby providing them with growth opportunities and creating a more significant impact
• Help donors and DFIs assist a larger number of enterprises as the grants are returnable
• Help impact investors assess the performance of the enterprise, both financially and operationally, based on their repayment history and other relevant documents

LIMITATIONS OF RETURNABLE GRANTS

• Grants can distort the market by favouring only a specific set of enterprises, thereby putting a large percentage of businesses at a disadvantage.

B. BLENDED FINANCE WITH TECHNICAL ASSISTANCE

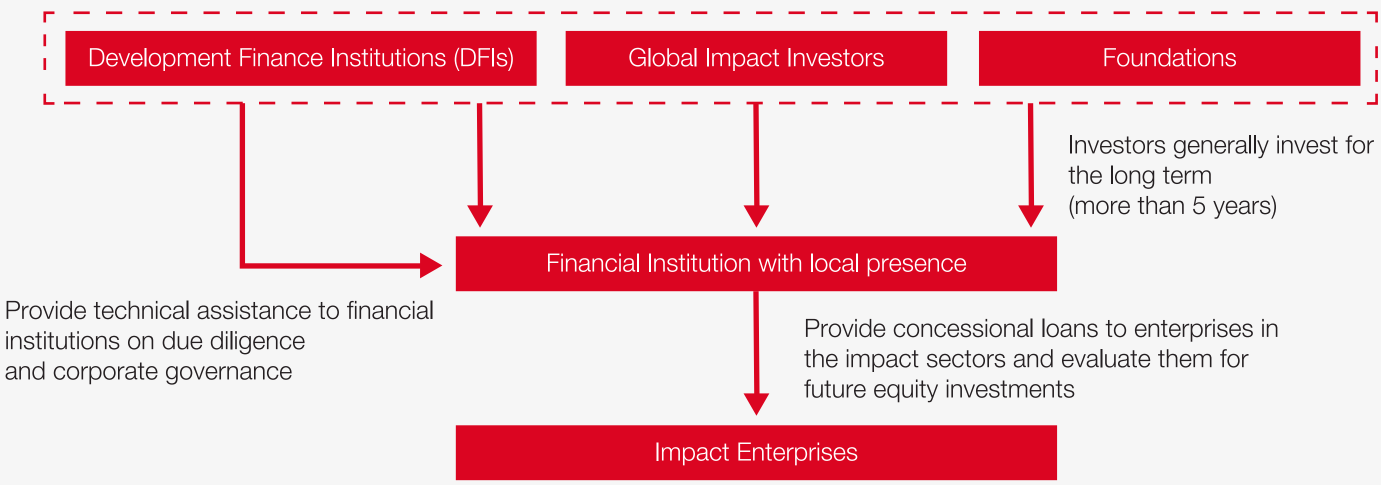
One of the biggest challenges for entrepreneurs in Mozambique is the high cost of capital. Many enterprises, especially those requiring long-term capital-intensive borrowing such as agriculture, clean energy, and manufacturing, cannot afford banks' high-interest rates.

IMPLEMENTATION MODEL: BLENDED FINANCE WITH TECHNICAL ASSISTANCE

DFIs have tried to address entrepreneurs' challenges by offering credit guarantees to banks and financial institutions. Unfortunately, banks in Mozambique are highly risk-averse and do not possess due diligence know-how to evaluate enterprises from various sectors. As a result, many loans disbursed are to established enterprises that have a history with the bank. DFIs and international investors can pool money in a local financial institution for lending to impact enterprises. Investors can also provide these local financial institutions with technical assistance to evaluate the impact enterprises on both commercial and operational aspects. The technical assistance would also include assessing the enterprises for future equity investment and include a broad range of topics, such as valuation.

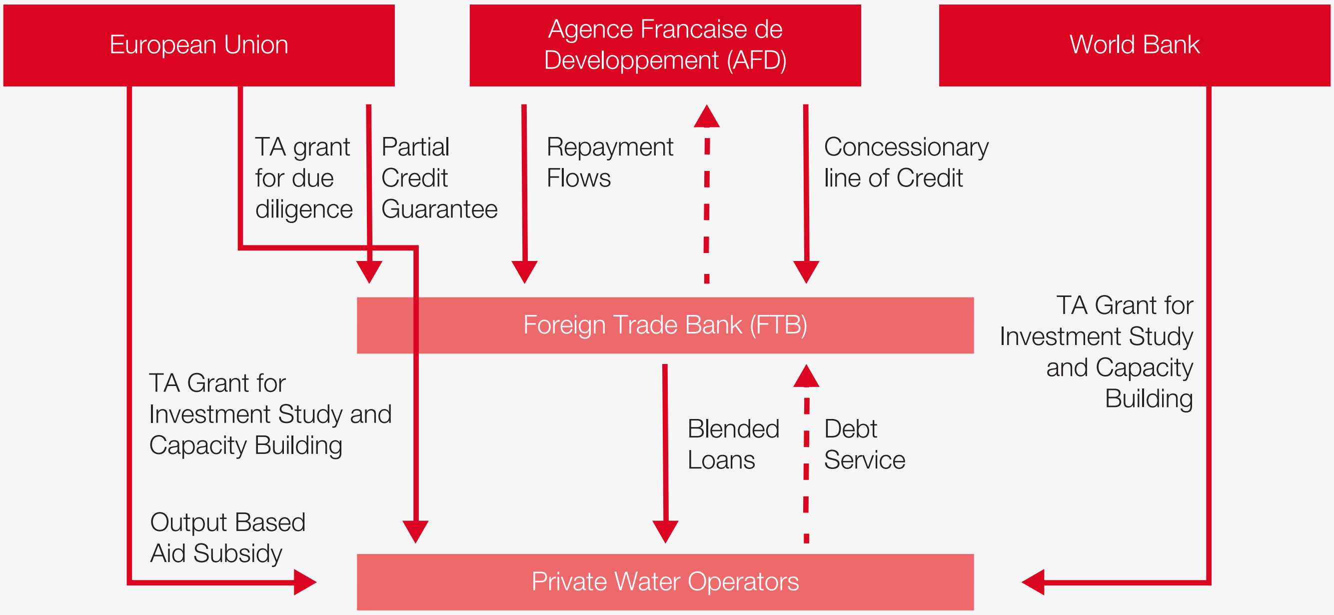
There have been successful instances of blended finance being deployed by private enterprises to achieve impactful results. A combination of non-sovereign concessional lending, guarantees, grants, and technical assistance has been used to leverage local commercial finance and equity investments to accelerate access to piped water supply by private operators in Cambodia. AFD provided a concessional line of credit to the Foreign Trade Bank (FTB) in Cambodia to enable them to extend more attractive loans to small and medium-sized water service providers. Output-based investments grants have been used in a complementary way as incentives for private water operators to connect poor households[147].

Figure 32: Structure of a Blended Finance Model with Technical Assistance



Source: Intellecap Analysis

Figure 33: Blended Finance for Micro Enterprises in Cambodia



Source: Water and Sanitation Programme

CASE STUDY 21: BLENDED FINANCE FOR MICRO-ENTREPRENEURS IN CAMBODIA

Funding Mechanisms:

Three financial tools, including a concessional line of credit, grant funding and a guarantee package totalling USD 24.2 million, were used to support small private water operators in Cambodia. The multi-sectoral non-sovereign concessional credit line of USD 15 million was setup with FTB. A USD 5 million risk guarantee (for a USD 10 million portfolio) was provided by AFD's risk-sharing mechanism (ARIZ) to share risk between FTB and AFD on the water credit facility. The guarantee offers a reduction of the collateral requirement from 200 percent to 100 percent of the loan value, allowing operators to borrow higher amounts. The EU provided a total of US$ 0.8 million for output-based subsidies to operators for connecting poor households.

Borrowing Conditions:

To ensure that at least some of this financing would go to the water sector, the FTB agreed to reserve at least one-third of the overall credit line for water sector operators. FTB transfers the concessional element to the loans it provides to the operators, leading to interest rates in the order of 6–8 percent per annum. The term is four to ten years, with an optional grace period of 12 months.

Technical Assistance Provided:

The Water and Sanitation Pooled Fund (WSP, World Bank) has provided grant funding to support the development of business plans and investment studies for a minimum of 20 water operators applying for FTB loans. WSP technical assistance expanded to the overall regulatory environment, resulting in more transparent licensing and tariff regimes.

Impact:

A total of 32 projects that meet the eligibility criteria to receive funding had been identified, representing a total requested loan of USD 8.7 million (as of July 2016). Five investment projects have been successfully completed. It is expected that almost 45,000 households will benefit from water service improvements, and more than 18,000 will receive new connections to a piped water system (45 percent of which are expected to be poor households).

ADVANTAGES OF BLENDED FINANCE WITH TECHNICAL ASSISTANCE

• Provides impact enterprises with concessional capital along with funds for capacity building which is a crucial requirement for the growth of Mozambican enterprises
• Provides comfort for the financial institutions due to the guarantees involved to lend to impact enterprises and get a feel of the scale and impact they can achieve

LIMITATIONS OF BLENDED FINANCE WITH TECHNICAL ASSISTANCE

• It is a complex process to get all the stakeholders on a common platform and commit funds to a particular enterprise. The loss of even one of the stakeholders puts the entire consortium in jeopardy
• Navigating the complexities of mechanisms involving multiple stakeholders could lead to inefficiencies from lack of coordination and high administrative costs

C. PROJECT FINANCING

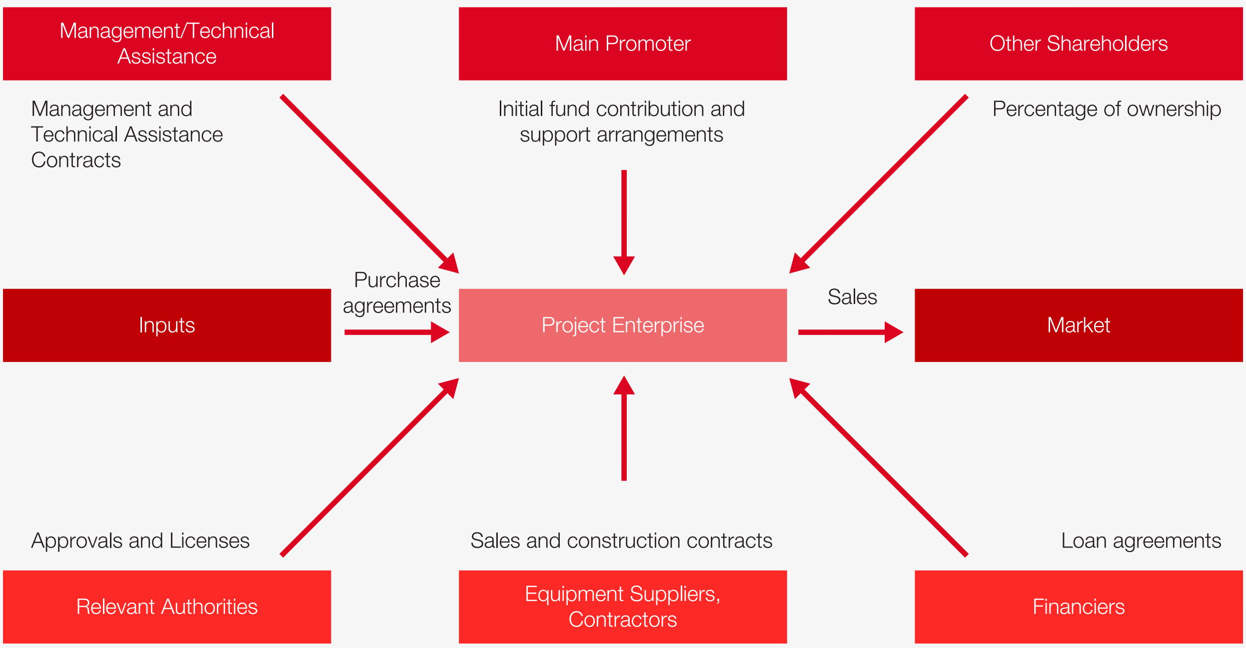
Businesses in agriculture and clean energy can often opt for project financing for specific projects such as large-scale agriculture farm acquisition, renewable energy projects and others that can operate as mini enterprises. Project finance provides for off-balance-sheet funding of the project, which does not affect the shareholders' credit. It also maximises equity returns by allowing for high leverage with interest as a tax-deductible expense.

IMPLEMENTATION MODEL: PROJECT FINANCE IN FRAGILE COUNTRIES

The project finance is raised on a Special Purpose Vehicle (SPV) set up specifically to administer the project. Raising project finance is a time consuming and expensive affair due to the complex structure and the extensive due diligence requirements. The project's funding would be presented on the SPV, and the repayment would be based primarily on the cash flows generated only by the SPV. The feasibility of the project and technical assistance can be provided as a grant by DFIs. Various DFIs should guarantee the project through partial risk guarantees to ensure private sector investment, which would be essential for achieving its intended milestones. Partial Risk Guarantees are one of the most required investment instruments (though not direct investment) for a country such as Mozambique, where there are high investor apprehensions concerning the security situation, foreign exchange fluctuations, and government bureaucracy.

A partial risk guarantee covers debt service defaults on commercial debt for a private-sector project/enterprise when such defaults are caused by a government or government-owned entity's failure to meet specified contractual obligations to the project. Norfund's investment in Central Solar De Mocuba (CESOM) in Mozambique was one such investment where it converted the early-stage project development debt to equity once the project developed into a feasible entity[148].

Figure 34: Blended Finance for Micro Enterprises in Cambodia



Source: Water and Sanitation Programme

ADVANTAGES OF PROJECT FINANCE IN FRAGILE COUNTRIES

• Project finance provides for off-balance-sheet financing of the project, which does not affect the credit of the shareholders and assists them in making investments in fragile and conflict countries without worrying about the impact on the overall company
• It is a type of blended finance model allowing for reduced risk for investments in countries such as Mozambique.

LIMITATIONS OF PROJECT FINANCE IN FRAGILE COUNTRIES

• Administrative complexity, coupled with the day-to-day management of the SPV, is a critical challenge in Mozambique. This is due to the limited availability of talent for managing complex financial structures.

PRINCIPLES FOR IMPACT INVESTING IN MOZAMBIQUE

Mozambique is one of the fastest-growing countries in Sub-Saharan Africa and holds the enormous promise of delivering growth to investors. Many global investors and enterprises have expressed their interest in investing and establishing operations in the country. While regulatory constraints and lack of clarity on the various policies hinder many investors, Mozambique's government is working on improving transparency and efficacy in this regard. Some of the principles and recommendations for investing in Mozambique are as follows:

• ***Understand the local context and invest with partners:*** Investors should understand the local laws and help navigate them. They should consider partnering with a local entity while entering the country for the first time. The local partner understands the economy, politics, and security situation within the country.

• ***Customise financial products to suit entrepreneurs' local needs:*** Enterprises in Mozambique are often straddled with high-interest rates. Investors need to understand Mozambican enterprises' needs, which require low-cost working capital with short processing time and offer suitable financial products accordingly. Instruments such as collateral-free loans, providing alternatives to traditionally accepted collateral such as gold, purchase contracts, saving balances as a guarantee, and warehouse receipts, and investors and financial institutions should offer revolving credit. Investors should also consider risk-sharing mechanisms such as blended finance instruments for investing in the country

• ***Invest in high growth sectors:*** Agriculture, financial services, energy, and logistics are some of the fast-growing sectors in the country. Investors should invest in these sectors to maximise their returns.

• ***Invest for the long term:*** Investors looking to invest in Mozambique need to be invested for a longer duration than they would be invested for in the developing and developed markets. Investors should start by investing with a local partner through debt-based investments but should consider equity investments for maximising returns.

• ***In addition to financial commitments, support enterprises with technical assistance, capacity building, and other essential services:*** Most of the impact enterprises in Mozambique require assistance in accounting, fundraising, and corporate due diligence. As a result, many of these enterprises fail to raise funding and expand their operations. Investors also need to invest their time in assisting these enterprises with technical assistance to improve productivity, corporate governance to streamline processes, accounting practices to raise funding, HR practices to acquire the right talent.

While local and international impact investors have expressed a desire to invest in the country, they are apprehensive about the security situation and the recent incidents in Cabo Delgado province often provide credence to their apprehensions. The government of Mozambique should instill investor confidence through strict security measures protecting investor interests in the country. The government also needs to improve transportation and power infrastructure to attract more investors and entrepreneurs and improve the overall ease of business operations in the country

ANNEXURE

ANNEXURE 1: PRIMARY INTERVIEWEES LIST

S. No	Country	Organisation	Organisation Type
1	Mozambique	Wamina	Impact Enterprise
2	Mozambique	Samsara	Impact Enterprise
3	Mozambique	Winnua	Impact Enterprise
4	Mozambique	Matharia	Impact Enterprise
5	Mozambique	Susamati	Impact Enterprise
6	Mozambique	HYFE	Impact Enterprise
7	Mozambique	Emprego/Biscate	Impact Enterprise
8	Mozambique	Ologa	Impact Enterprise
9	Mozambique	ITIS	Impact Enterprise
10	Mozambique	Epsilon Energy Solar	Impact Enterprise
11	Mozambique	Agrilinks	Impact Enterprise
12	Mozambique	Luza Credito	Impact Enterprise
13	Mozambique	MUVA	Impact Enterprise
14	Mozambique	Kamaleon	Impact Enterprise
15	Mozambique	New Tech Lab	Impact Enterprise
16	Mozambique	Paytek Africa	Impact Enterprise
17	Mozambique	3R - Reduzir, Reusar e Reciclar Limitada	Impact Enterprise
18	Mozambique	Xikhaba	Impact Enterprise
19	Mozambique	Technoplus, lda	Impact Enterprise
20	Mozambique	Rota do Café	Impact Enterprise
21	Mozambique	Nhani	Impact Enterprise
22	Mozambique	Instituto Nília	Impact Enterprise
23	Mozambique	Cordão Umbilical	Impact Enterprise
24	Mozambique	Anchaa's Gluten-free	Impact Enterprise
25	Mozambique	Massungulo, Lda	Impact Enterprise
26	Mozambique	Hortifresh Moz	Impact Enterprise
27	Mozambique	Atelier Joia	Impact Enterprise
28	Mozambique	Free-Time	Impact Enterprise
29	Mozambique	M-Xitique	Impact Enterprise
30	Mozambique	Solar works	Impact Enterprise
31	Mozambique	Robobo/ PagaLu	Impact Enterprise
32	Mozambique	Quick-e-pay	Impact Enterprise
33	Mozambique	Initiative for Democratic Citizenship	Impact Enterprise
34	Mozambique	USAID	Investor
35	Mozambique	DFC	Investor
36	Mozambique	Ideia Lab	ESO (Incubator)
37	Mozambique	Jose Ivo Correia (Consultant)	ESO
38	Mozambique	GAPI	Investor
39	Mozambique	Guamo	Impact Enterprise
40	Mozambique	Cassidy Business Solutions	Impact Enterprise

ANNEXURE 1: PRIMARY INTERVIEW LIST

S. No	Country	Organisation	Organisation Type
41	Mozambique	Association of Mozambique Business Angels (AMBA)	Investor
42	Mozambique	SIDA	Investor
43	Mozambique	AMPETIC (ICT Association)	ESO
44	Mozambique	Dev Mozambique	ESO
45	Mozambique	FEMME (Association of Women Entrepreneurs of Mozambique)	ESO
46	Mozambique	Headway Group	Impact Enterprise
47	Mozambique	Agrimag	Impact Enterprise
48	Mozambique	Thirdway Africa	Investor
49	Mozambique	Rural Development Corporation	Investor

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