Terms of Reference
Fundo de Garantia Mutuário: Risk and Compliance Manager
Mozambique: Access to Finance & Economic Opportunities Project ("*Mais Oportunidades*" P178658)

a) Context

1. **Economic activity in Mozambique is mostly conducted by small, mostly informal, firms.** About 89 percent of enterprises are estimated to be informal, representing 31 percent of GDP (2021). The informal sector consists mainly of smallholder farmers in the agricultural sector, as well as "household enterprises" in urban and rural areas. About 75 percent of firms are financially excluded.

2. **Access to finance in Mozambique is significantly constrained.** The IFC estimates that the MSME financing gap in Mozambique was equivalent to 10 percent of GDP in 2017. In the formal non-micro firms, about 60 percent of the firms find access to finance as an obstacle to their current operations. Access to finance is reported to be the largest constraint also by informal firms. On average, only 5 percent of informal firms have any kind of loan from a financial institution and 8 percent have applied for a loan in the past year. Firms in the informal sector depend a lot on informal sources of finance such as moneylenders, friends, relatives, for their working capital, which is the second highest source for finance of working capital.

3. **Firms do not apply for loans because they find either the interest rates too high or that there is a negligible probability of their loan application getting approved.** Only 4 percent of informal firms in Maputo borrow from channels such as banks, financial institutions, while this share is less than 1 percent in Beira and Nampula. Irrespective of their location, most informal firms do not apply for a loan because they do not think that they need one (this is in spite of the firms seeing access to finance as a major constraint). In the formal non-micro firms, about 60 percent of the firms find finance as an obstacle to their current operations. For informal firms, on average only 5 percent of them have any kind of loan from a financial institution Indeed, the country's rank on the ease of getting credit (165) is worse than the Sub-Saharan African average rank (113) in this subcategory. The high cost of finance and the lack of collateral are typically known issues.

4. **In Mozambique, the gender gap on access to finance is high and has been growing.** Men's financing increasing 2.4 times faster in recent years than those of women**.** Women entrepreneurs, who tend to have relatively more movable assets than men, view most times access to finance as the most significant constraint limiting the growth of their business.

5. **Financial development requires better credit allocation by financial institutions, which is constrained by the lack of adequate financial infrastructure.** The financial sector suffers from a weak insolvency regime, the absence of large-scale financial reporting, and an inefficient credit reporting system. This partly explains why commercial banks primarily provide asset-based lending and offer little cash-flow-based lending or start-up financing, and why small-scale borrowers receive limited credit from financial institutions.

6. **Credit information in Mozambique is underdeveloped.** Financial reporting and auditing practices are absent in most nonfinancial corporations, particularly SMEs. Since 2019, Mozambique has had an operating private credit information agency that has been collecting information from banks and microfinance institutions. This is a positive development that will help complement existing credit information systems and offer nonbank financial information. However, hundreds of nonbank credit

institutions have poor management information systems and are not yet connected to the bureau, limiting the credit bureau's effectiveness.

7. **Credit allocation is constrained by information asymmetry**. Given the challenge and cost associated with determining the creditworthiness of small businesses, banks in Mozambique require small firms to provide high levels of collateral. Banks rely on real estate, cash deposits, and third-party guarantees (*aval*) as collateral for loans since these receive a reduced risk weight for the purposes of calculating regulatory solvency ratios. Banks do not tend to lend against inventory or make use of cash-flow based financing.

8. **Credit market conditions for MSMEs in Mozambique justify public interventions to encourage lending to this segment, considering the high levels of asymmetric information, high-risk perception, and lack of collateral.** The government of Mozambique has created an Economic Acceleration Package (PAE – *Pacote de Medidas de Aceleração Económica*[1]), which includes the establishment of a credit guarantee fund ("Fundo de Garantia Mutuário" or FGM) that will provide partial credit guarantees (PCGs) based on the Principles for Public Credit Guarantee Schemes for SMEs[2] to participating financial institutions (PFIs). The credit guarantee fund is also expected to provide partial counter guarantees to *Sociedades de Garantia* providing loan-by-loan guarantees once these have been regulated by the Bank of Mozambique.

9. **The Ministry of Economy and Finance (MEF) has commissioned a market assessment and feasibility study, which is expected to provide the dimensions of the MSME loan market in Mozambique and help guide the creation of guarantee products by the fund.** MEF also created a working group comprised of public and private sector representatives to prepare the design of the fund and held an initial consultation with large commercial banks on December 2, 2022. By July 2023, MEF expects to have finalized drafting of a legal instrument to create the guarantee fund. The initial capital of FGM is yet to be determined but will likely to be around US$120 million to be financed by a credit from the World Bank.

Credit Guarantee Fund

10. **Beneficiaries of the credit guarantee fund ("FGM") will be formal MSMEs (natural and legal persons with legal personality), with viable businesses with payment capacity to be evaluated by each PFI.** FGM will not have direct contact with MSMEs as PFIs or *Sociedades de Garantia* will be responsible for originating, evaluating, and deciding credits eligible for guarantees (based on criteria established by). FGM will select PFIs based on prudential and risk management criteria. FGM's business model should allow for mass use of guarantees in an efficient manner. The allocation of credit guarantees can be made through the approval of portfolio guarantee lines to each PFI, against which PFIs can grant credits to MSMEs that are automatically guaranteed or through counter-guarantees to *Sociedades de Garantia* that will provide partial loan-by-loan guarantees to PFIs. To avoid moral hazard risk and as a safeguard to prevent PFIs from including substandard loans, FGM will regularly monitor, within the PFIs, the quality of their guaranteed loans portfolios.

11. **FGM is expected to be governed and managed by professionals with competencies in credit risk management, MSME finance, and financial management.** FGM will be responsible for setting up systems that meet World Bank requirements, preparing financial statements and accounts, signing of contracts with PFIs and *Sociedades de Garantia*, managing systems and operational risks, payment of claims,

[1] https://www.mef.gov.mz/index.php/imprensa/noticias/679-pacote-de-medidas-de-aceleracao-economica
[2] https://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes

recovering collaterals attached to defaulted loans, and investment of available resources in compliance with the investment policy which is expected to be prudent (low risk and high liquidity).

12. **FGM should be financially self-sustaining over time. Ideally, its revenues should cover the cost of the risks and operational costs.** FGM will determine (and revise as needed) the fees and the coverage ratios. Fees should be risk-based and should not exceed a maximum (to be defined) of the guaranteed amount per year. Available reserves shall be invested in high quality financial instruments so that the investment income contributes to the sustainability of FGM. The Fund Manager will be responsible for proposing an Investment Policy for approval by the FGM governing body to be established in the draft legal instrument.

b) Objectives of the Assignment

13. **Reporting to the Fund Manager (i.e. CEO), the objective is to serve as member of FGM's management team and assist the Fund Manager in designing, setting-up, and administering FGM to help increase access to finance for MSMEs in Mozambique.** The assignment is expected to take three years with the possibility of one renewal of up to three years. During the initial year of the contract, the Consultant will be expected to ensure FGM has an appropriate product mix, compliance framework and internal control framework in place to support the long-term operations and sustainability of the fund. Throughout the life of the contract, the Consultant will be required to contribute to the objectives of sufficient outreach (number of credit constrained MSMEs that benefit from the scheme), additionality (target guarantees to credit constrained MSMEs), and sustainability (avoid losses and recourse to recapitalization by the state, while training and mentoring the other members of the team, as required).

c) Scope of Services, Tasks, and Time Schedule for Deliverables

14. **The Consultant will directly provide services during the set-up and operational phases of FGM.** The Consultant (individually and/or collectively with the other members of the management team) will provide the following detailed services:

- Managing the mix of FGM's products to align with market requirements;
- In collaboration with the Fund Manager, establish clear mandates (including clear targeting and eligibility for participating financial institutions and beneficiaries) for respective products/windows for approval by the appropriate governance committee;
- Establish processes and complete assessments of PFI eligibility (including environmental and social risk management systems) based on criteria established by the Fund Manager in accordance with processes established under the World Bank Project Operations Manual, establish contracts with and conduct ongoing monitoring of suitably qualified PFIs;
- Perform research to identify the risks facing the PCG, their severity and determine the probability of occurrence;
- Develop strategies to measure identified risks appropriately, and articulate a coherent risk appetite for the PCG;
- Lead the PCG's efforts in pursuing risk re-guarantees and co-guarantees with partner institutions;
- Establish and maintain compliance and reporting requirements in line with the articles of association and statutory framework under which FGM operates;
- Establish and implement an internal control framework suitable to the operations of FGM;

- Monitor limits & exposures of participating financial institutions to ensure that indemnity and credit risk levels and are within risk tolerance of the fund;
- Conduct annual and quarterly analysis of the portfolio and provide reports to the Fund Manager and governance committees as required;
- Contribute to the FGM strategy and its economic, financial, and operational objectives, and products;
- Contribute to the evaluation and measurement of the risk of guaranteed credits and the design of new credit guarantee and counter guarantee products;
- Support the Fund Manager in all operations arising from the administration of FGM, and ensure compliance with the regulations governing FGM;
- Contribute to the preparation of semi-annual operational and financial reports to the MEF, or as regularly as required; and
- Appropriately assess risk when business decisions are made, demonstrating particular consideration for FGM's reputation financial sustainability and safeguarding FGM, its clients and assets, by driving compliance with applicable laws, rules and regulations, adhering to Policy, applying sound ethical judgment regarding personal behavior, conduct and business practices, and escalating, managing and reporting control issues with transparency, as well as effectively supervise the activity of others and create accountability with those who fail to maintain these standards.

Depending on organizational requirements, additional tasks for the risk director may include:

- Heading the Risk Committee;
- Liaising with internal and external auditors in assessing and providing independent assurance of the adequacy, appropriateness, and effectiveness of the PCG's overall risk management framework, policy, and implementation plan;
- Partnering effectively with third parties, regulatory bodies, and others, as appropriate, and serving as a role model for high personal and corporate ethical values and standards of integrity.

d) Reporting, Schedule, and places of assignment

15. **This full-time assignment is expected to start in Q2 2023 based in Maputo, Mozambique**. Should travel be required, the Consultant's travel expenses will be reimbursed following applicable procedures and guidelines. MEF will carry out an annual assessment of the Consultant's performance. If the Consultant's performance is found unsatisfactory, the contract will be discontinued.

e) Qualification Requirements

16. **Successful candidates must be eligible as per the World Bank Procurement Guidelines and should not have direct or indirect relationship with potential PFIs that are expected to receive PCGs from FGM.** To be selected, the individual Consultant must have the following qualifications:

- Academic degrees and diplomas in finance, economics, engineering business administration, or comparable field;
- Proven private sector experience in SME financing with a minimum of 10-15 years of practical experience in design, implementation and/or monitoring of SME products and portfolios in a commercial bank, fund manager or similar, including a minimum of 3-5 years of experience in Mozambique;

- Proven ability to apply mandate design and compliance principles toward business goals;
- Demonstrated ability to synthesize, prioritize and drive results with urgency;
- Proven organizational, interpersonal, and analytical skills
- Sound presentation skills and ability to participate in portfolio review presentation to senior credit officers at private financial institutions
- Proven experience in presenting technical findings and recommendations to senior government officials;
- Proven experience in the preparation and dissemination of information on compliance or financial performance, including through an efficient organization of the underlying data;
- Excellent communication, facilitation, and negotiation skills;
- Proven ability to self-start work without close supervision, handle several tasks simultaneously, and deal with rapid shifting priorities under pressure, while maintaining attention to detail;
- Prior experience in managing or working with credit guarantee products for MSMEs would be an advantage;
- Fluency in Portuguese and English.