

**Terms of Reference**  
**Fundo de Garantia Mutuário: Credit Guarantee Fund 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*<sup>1</sup>), 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<sup>2</sup> 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 February 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\$110 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). 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,

---

<sup>1</sup> <https://www.mef.gov.mz/index.php/imprensa/noticias/679-pacote-de-medidas-de-aceleracao-economica>

<sup>2</sup> <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. The objective is to serve as member of FGM's management team (e.g., CEO) and assist MEF 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 on one renewal. During the initial three-year contract, the Consultant should aim to give FGM 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 management team). The consultant is also expected to be a non-voting member of a specialized Products and Services Committee.

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

**14. The Consultant will directly provide management services during the set-up phase of FGM.** The consultant will lead the establishment of the FGM to align with practices outlined in the Principles for Public Credit Guarantee Schemes for SMEs (Principles). In accordance with the Principles, the Consultant (individually and/or collectively with the other members of the management team) will provide the following non-exhaustive list of services:

- Provide strategic advice to the Board of Directors;
- Develop, for the Board's approval, strategic direction and positioning to ensure the FGM's financial sustainability and success;
- Establish and manage all activities of FGM with the objective of delivering on the strategic direction set by the Board, including:
  - policies and procedures necessary for the operation of FGM;
  - governance policies and procedures;
  - strategic and operational risk management, including ensuring risk appetite is clarified and implemented for credit, liquidity, operational and market risk;
  - financial and compliance management functions;
  - product and service management and innovation in light of market opportunities and risks;
  - investment management activities;
  - monitoring and evaluation activities to validate additionality of the fund;
- Design or update the overall organization (operational functions, staffing, budget, etc.) and business model allowing the achievement of the overarching goals of FGM;
- Select and hire the operational team to support the FGM management team with implementation of the operational aspects of the fund;

- Regularly validate FGM strategy and its economic, financial, and operational objectives, and products and inform the Board of findings;
- Monitor the evolution and performance of FGM's activities, staff, risks, revenues, and portfolio;
- Validate FGM financial plan and investment policy (capital management, funding, and budgeting);
- Guide establishment of fund/window mandates and selection of PFIs based on clear eligibility criteria and capacity to comply with the World Bank Group's environmental and social standards policies and in accordance with the Project Operations Manual;
- Determine the conditions of operation with PFIs—including terms and conditions for guarantees, information requirements and support systems, and claim settlement—in umbrella contracts to be signed with each PFI;
- Develop and implement a marketing and communications strategy for FGM;
- Provide operational and commercial advice to PFIs in their effort to use guarantees for MSME loans;
- Guide FGM in identifying and evaluating IT solutions for risk management and portfolio management information systems (MIS<sup>3</sup>) to facilitate the process of granting guarantees and manage and receive (in near real-time) the information sent by the PFIs about the credit operations guaranteed by FGM;
- Evaluate and measure the risk of guaranteed credits and the design of new credit guarantee and counter guarantee products;
- Exercise control actions on all operations arising from the administration of FGM, and ensure compliance with the regulations governing FGM;
- Assess the training needs of PFI staff, particularly on the use of credit guarantees and compliance with World Bank Group safeguards policies, and conduct regular training workshops on new products, features, and policies and procedures;
- Setting-up financial management systems in a manner satisfactory to the Bank;
- Select and appoint the independent external auditors of the fund;
- Prepare semi-annual operational and financial reports to the respective governance committees as required; and
- Lead and support coordination of stakeholder engagement activities.

#### **d) Reporting, Schedule, and places of assignment**

**15. This is a full-time assignment starting on or around July 2023 and based in Maputo, Mozambique.** The employer will reimburse the Consultant's travel expenses following applicable procedures and guidelines. MEF will conduct 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:

---

<sup>3</sup> An information (or batch) system integrated with PFIs is fundamental for the exchange of relevant information. The MIS system should help better assess the PFIs' management and risk appraisal quality, the MSMEs' credit risk, and better determine provision requirements and pricing structure.

- Academic degrees and diplomas in either finance, economics, engineering, or comparable field;
- Minimum of 20 years of experience managing a financial institution and/or guarantee institution as either a director, CEO, or manager with responsibility for high level activities in providing financial and/or guarantee process.
- Ability to pass a financial sector fit and proper assessment.
- Prior experience in designing and managing a Credit Guarantee Fund for MSMES, preferably with experience in developing countries with legal traditions and experiences similar to Mozambique;
- Proven experience in providing policy advice in financial market development;
- Proven experience working in developing countries, particularly in the Africa region;
- Proven experience developing and/or leading training or capacity-building exercises relevant to SME finance and financial sector development;
- Proven experience in presenting technical findings and recommendations to senior government officials;
- Proven experience in the preparation and dissemination of information on financial performance, including through an efficient organization of the underlying data; in this regard, information-technology skills on database construction will be a plus;
- Excellent communication, facilitation, and negotiation skills;
- Excellent technical writing skills and precise drafting capabilities;
- Experience leading similar exercises in other countries;
- Strong project management skills;
- High level of energy, initiative, and drive for results with agreed objectives and deadlines;
- 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;
- Fluency in either English, Spanish, or Portuguese, and;
- Proven ability to work effectively in Portuguese.