



External Evaluation of Futuro MCB 2017 – 2022

Tender submitted to: **Swiss Cooperation Office in Mozambique**
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FINAL REPORT

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ACRONYMS

AfDB	African Development Bank
ALCO	Asset-Liability Committee
BCI	Commercial and Investment Bank
BIM	Investment Bank of Mozambique
BOD	Board of Directors
CEO	Chief Executive Officer
COVID	Corona Virus Disease
CRC	Credit Reference Bureau
EFLD	Economic Linkages for Diversification Project
EXCOM	Executive Committee
EY	Ernst and Young
FAR	Agricultural Development and Rural Extension Fund
FCDO	Foreign Commonwealth Development Office
FTFP	Feed the Futuro Premier
GDP	Gross Domestic Product
GIZ	German Technical Cooperation
GREPOC	Post-Cyclone Reconstruction Office
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IT	Information Technology
KFW	German Development Bank
LPF	Loan Performer
ME	Microenterprise
MIS	Management Information Software
MMO	Mobile Money Operator
MSME	Micro, Small and Medium Enterprises
MZN	Mozambican Metical
NPL	Non-Performing Loans
OPEX	Operational Expenses
OSS	Operational Self-Sufficiency
ROA	Return on Assets
ROE	Return on Equity
SDC	Swiss Development Cooperation.
SIDA	Swedish International Development Agency
SME	Small or Medium Enterprise
SPTF	Social Performance Task Force
USAID	United States Agency for International Development
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
YOY	Year-On-Year

EXECUTIVE SUMMARY

Futuro Mbc is a microbank, headquartered in Nampula. Founded in 2017, it has grown to serve over 12,000 active clients and almost 6,000 active borrowers. It successfully fills a gap in the financial market, where limited access to credit and insurance services, are available to informal businesses, especially in the North.

The present evaluation seeks to determine to what extent the technical support offered to Futuro by the Swiss Development Cooperation (SDC) from 2017 through 2023 has prepared it to become a sustainable and impactful institution. To this end, the evaluation carried out an assessment of the institution in terms of its structure, policies, procedures, risk management and financial performance. In addition, it facilitated six focus groups with current and former clients to assess changes that they have experienced in their economic wellbeing, as well as gather feedback as to how well Futuro's services meet their needs. These two points of assessment were then analyzed to assess the bank according to OECD/DAC Criteria.

Main findings from Institutional Assessment:

Futuro has two main shareholders, SDC and Hollard. They share a vision for financial inclusion and have proven to complement each other in terms of support to Futuro's capacity building. Neither shareholder has previous experience investing in a bank or microbank. SDC, as a government agency, is not well placed to respond to potential needs such as capital calls or other forms of emergency funding, but has provided on-going support in the form of capacity building grants, which have also subsidized management costs until the bank was able to cover its own.

BOD is composed of seven members who bring relevant skills in microfinance, banking, insurance and knowledge of financial inclusion in Mozambique. The BOD shows commitment and has supported the bank through a series of external challenges. It could be strengthened with local banking skills and a more deliberate gender balance. BOD committees need to be strengthened.

Futuro is managed by an experienced CEO, who has recruited and is actively monitoring on relatively young but mostly dynamic management team. The team is not yet fully staffed per the business plan, still to recruit the heads of risk, innovations and products. There are no women on the Executive Committee. While the management team is increasingly taking on more responsibilities from the CEO, the CEO continues to be a critical resource. He is expecting to leave in 2025, implying an urgency to recruit his replacement.

Futuro's strategy focuses on expansion and profitability. The main drivers are growth are geographical expansion, introduction of agricultural financial services and digitalization. There is limited change anticipated in the client segment or the composition of the loan portfolio by segment. Given the limited competition and the responsiveness of Futuro's

products to its target market, this growth plan appears achievable from the perspective of operations and market. Its greatest risks will include the capacity to raise funding, the ability to manage growth and institutional strengthen simultaneously, the need for a new core banking software and key person risk. These risks have been identified by Futuro for the most part and are included in its capacity building plan.

Several back office and support areas are actively being strengthened with the hiring of new staff in IT, Credit, HR as well as placing a person in charge of reporting to the Bank of Mozambique. Other areas, including internal audit require more support.

Futuro covered its operational expenses with business revenues for the first time in June 2023. This was in line with its targets for the SDC capacity building grant 2021-2023. Its financial projections anticipated improvements in profitability over the coming years, with an ROE of 5% over the first two years, increasing to 25% by year 5. It does not assume high levels of staff productivity, but it does assume a consistent improvement in operational efficiency as the bank grows.

Coming out of the COVID pandemic, Futuro has higher than desirable NPLs, and they are trending upwards. There is a concerted management effort to address this, and various steps have been taken to mitigate credit risk during appraisal, strengthen credit committees, regularly monitor NPLs at the level of the EXCOM, create a recoveries team. Futuro's projections are particularly sensitive to NPLs, and thus this on-going effort and the positive results will be critical to its success.

The institutional assessment scored each of five assessment areas:



The results were as follows:

Institutional Assessment



Ownership, Governance and Management

Operations and Risk Management

Strategy and Market

Capital Adequacy and Regulations

Funding, ALM, Liquidity

While Futuro remains a small institution, still struggling to turn a profit, and faces real challenges in raising funds necessary to grow, it also has shown solid progress and growth



over the past five years. It has developed a growth plan with relatively conservative assumptions, which it should be able to achieve if funding is identified.

Client feedback

Client feedback indicates that the most important consideration for MSME clients in Nampula is access: many clients do not have other sources of credit and insurance, and appreciate that Futuro is offering. They also value the ability to use digital channels to transact, as well as good customer service and friendly staff. Women focused more on the access question, while men looked for friendly staff, and SMEs sought convenience and quality of service. MEs were highly satisfied with the service, terms and conditions offered by Futuro. SMEs were mixed, with some former clients raising concerns about interest rates and clarity on terms and conditions at the time of application. All felt that Futuro’s services were convenient.

Clients and former clients demonstrate a positive trend in terms of business assets, household assets and capacity to pay for household expenses. Many indicate that the loans and training from Futuro contributed to this growth. Further, women show signs of increased empowerment and decreased vulnerability, citing that they are able to assist their husbands with household expenses, and some widows have noted that the passing of their husband did not reduce their living standards. Former SME clients are more divided on the impact of Futuro, citing interest rates as a challenge.

DAC Criteria

	Strengths	Areas for Improvement
Relevance 	<ul style="list-style-type: none"> - Filling a clear market gap especially in credit and insurance - Well aligned with National Strategy for Financial Inclusion 	<ul style="list-style-type: none"> - Business plan is conservative in savings mobilization – a felt need among clients - Business plan projections into agriculture a timid given the dominance of the sector in Nampula
Coherence 	<ul style="list-style-type: none"> - Support to Futuro is aligned with SDC’s targets of improved employment, increasing income and increasing access to finance - Efforts have been made to coordinate with SDC and other development projects 	<ul style="list-style-type: none"> - Many donor projects focus on rural/agriculture, and/or very vulnerable populations (such as unemployed youth.) These segments are a bit of mismatch for Futuro’s urban focus on self-employed populations.

Strengths

Areas for Improvement

Effectiveness



- Futuro has achieved 81% of targeted outcomes from SDC grants and 87% of planned activities.
- It has demonstrated capacity to implement and absorb capacity building measures
- Its financial performance is on par with other microbanks in the country.

- Planned rural expansion and agricultural products should permit greater integration with development efforts in the future.
- It has struggled to meet its outreach and profit targets in the past, and has remained smaller than anticipated by its shareholders.
- Funding has in the past been a challenge to growth, and continues to be a risk in the future.

Efficiency



- Futuro is a relatively small microbank, and there are no peers in Mozambique of its size. In this context, it has fared relatively well in achieving profitability in a similar time period (5 years) to other greenfield microbanks across Africa, which started with more capital.

- Futuro's cost structure compared to its portfolio is relatively higher than other microbanks in Mozambique, but its loan portfolio is much smaller. This is driven by its full focus on MSMEs (as opposed to others, which prioritize salary-backed loans, with less focus on MSMEs.)
- Futuro's projected staff productivity is highly conservative and could be reviewed to increase efficiencies.
- The inefficient core banking software is a driver of costs.

Impact



- Futuro's clients - especially MEs - report a profound impact on their wealth and empowerment, and they

- Futuro does not monitor impact, even of basic indicators (such as income, employment), on a regular basis.

Strengths

Areas for Improvement

- credit support from Futuro.
 - Women also value the security offered by insurance.
 - No unexpected negative impacts were detected.
- Futuro does not yet have an ESG or SPM policy, though it is planned.

Sustainability



- All support has focused on creating a sustainable institution. A solid BOD, CEO, likeminded investor are important signs of the building of a sustainable microbank.
 - The business plan and capacity building plans have appropriately addressed most of the major needs to ensure sustainability and continued growth.
- Futuro is not yet profitable, and will likely only turn an annual profit in 2024.
 - There is no plan for the procurement/acquisition of an appropriate core banking software. It is presently working on a temporary (3-5 year) solution.

Overall Evaluation of Impact of Capacity Building Grants



1. CONTEXT AND PURPOSE OF EVALUATION

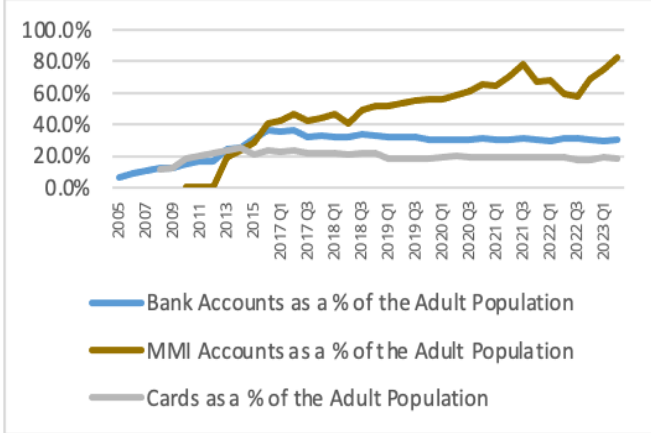
Located in Southern Africa, Mozambique has a population of 34 million people (51.14% women) and a GDP of USD15.78 billion. The major drivers of employment are the agricultural sector, which employs about 80% of the country’s workforce and informal businesses. About 90% of all businesses are informal and small-scale. The number of formal sector firms is slowly increasing, reaching 43,000 in 2016. Most are new, less than five years old, and over 1/3 are based in Maputo.

The country struggles with high levels of poverty, with a poverty rate of approximately 64%.¹ Further, Mozambique is among the most highly affected countries in the world in exposure to risks resulting from climate variability. In 2021, Mozambique was ranked the fifth most affected country by weather-related loss events by the Global Climate Risk Index, considering events between 2000 and 2021.²

Women face a disadvantage in accessing development opportunities. Traditional gender norms restrict women’s access to education, information, technology, land and decision-making authority. Facing 50% illiteracy and increasing malnutrition, women have less access to information to take advantage of local content opportunities.

According to most recent Finscope Study (2019)³, 43% of Mozambicans used at least one formal financial service. This was a marked growth from five years prior at 23%. Mobile money operators (MMOs) were the major drivers of this growth, as banks saw only a 1% increase in their outreach. As of 2019, mobile money remained primarily in urban centers, but the last three years have seen a continued expansion. MMOs continue to be a major driver of growth in financial inclusion and have aggressively expanded to rural areas over the past two years.

Figure 1: Trends in Bank and MMO Accounts

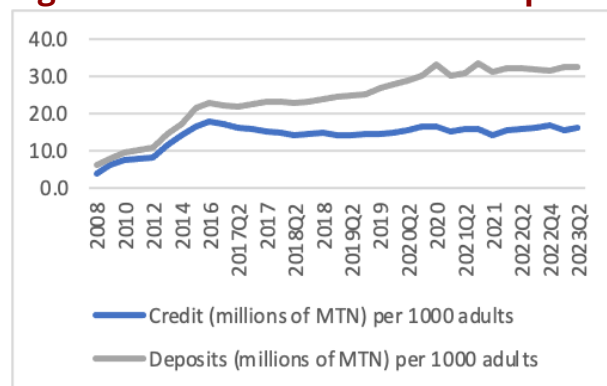


¹ [data-moz.pdf \(worldbank.org\)](#)

² [cri-2021_table_10_countries_most_affected_from_2000_to_2019.jpg \(4267x2133\) \(germanwatch.org\)](#)

³ [Mozambique_Survey-2020-07-311.pdf \(finmark.org.za\)](#)

Figure 2: Trends in Credit and Deposits



Access to credit, however, was a different story. In 2019, only 7% of Mozambicans had borrowed in the past year. Banks lent to 4% of the population. A recent GIZ study indicates that only 0.6% of the rural population uses loans⁴.

Looking access to finance from a gender lens, a recent GIZ study⁵ analyzes a variety of different databases (Finscope, Bank of Mozambique, Global Findex) and found that while the estimates of access to financial services have a wide range, all of them show a gender gap.

Table 1: Access to Finance by Gender

	Access to Bank Account	Access to Mobile Money	Access to Credit
Women	18%-39%	31%-88%	3%-9%
Men	26%-61%	25%-50%	5%-21%

One of the reasons for this low access to credit is the small size of the microfinance sector. Despite the apparent large number of institutions, the reality is that the majority are small, local, individually owned entities which operate much like traditional money lenders. A recent World Bank document estimated the microfinance sector served 88,000 clients with US\$13.7 million in loans and US\$5.2 million in savings in December 2021. It is difficult to determine how much of these reaches low-income households, and in particular those in the informal sector.

Various projects are seeking to tackle the challenge of access to finance. Many of them specifically focus on rural and agriculture, though there are a few programs funded by the World Bank and IFC which support financial sector development more broadly. A recent mapping carried out by Ayani for the USAID-funded Feed the Future Premier (FTFP) found a number of programs in support of the financial sector, listed in Table 2.

⁴ Chavez, Luis et al. *Financing Agriculture through Commercial Banks in Mozambique Current Approaches, Constraints, and Recommendations*. Maputo: GIZ and Mozambican Banking Association (AMB), 2022, p 1

⁵ Saranga, Tanhã. *Diferenças de Género no Acesso a Produtos e Serviços Financeiros*, Maputo: GIZ, December 2022.

Table 2: Programs Supporting Financial Services⁶

Type of intervention	Donors/DFIs	Objective
Direct funding (equity or debt to large agribusinesses and PPP)	AfDB IFC	Promote value chain development through anchor companies or agro-industrial hubs
Direct credit facilities to agribusinesses and PACEs	FAR (SUSTENTA Program) Fundo Catalitico	Government entities providing subsidized credit lines to agribusinesses and PACEs
Credit Lines to commercial banks or MFIs	AfDB IFAD KfW World Bank (upcoming <i>Mais Oportunidades</i>)	Encourage financial institutions to increase lending to the agricultural sector, sometimes at below-market rates
Guarantee Facilities	USAID/DFC SIDA World Bank (SUSTENTA/ Landscape project) AFD	Reduce banks for lenders, some require reduction collateral
Equity in microbank	SDC	Microbanco Futuro in Nampula
Non-debt investment facility for agriculture	FCDO	In development. Will seek to address the gap in alternative financing
Smart subsidies to reduce interest rate	FCDO	In development, will seek to use smart subsidies to reduce the cost of debt on the other
Technical support to financial institutions	GIZ KfW (linked to credit lines) SIDA (through FSDMoc)	Ranges from developing agricultural lending products to strategic development to testing new channels
Support for development of agricultural insurance	IFC	At sector level (regulator) and with institutions and MADER/FNDS
Innovations/technology	SIDA (through FSDMoc)	E.g., Fintech Sandbox and grants for new initiatives
Savings groups promotion and linkages and financial education	GIZ IFAD	Increase outreach, formalize groups, improve data, link to banks, mobile operators, and agrodealers, financial/entrepreneurship education
Support to regulatory environment and financial infrastructure	SIDA (through FSDMoc) IFC GIZ SDC (microbanks)	Various efforts looking at the regulations for banks, microbanks, equity funds, agent networks. Also mobile asset registry, credit bureaus, data.
Studies/research for publication	World Bank GIZ SIDA (through FSDMoc)	A number of recent and relevant studies mapping services, assessing gender questions, analyzing challenges, looking at technology solutions
Promotion of sector dialogue (through AgRed, FABI, etc)	FDCO GIZ World Bank	Sector information is reportedly a challenge and interviewed donors did not have a good overview of programming. Efforts to improve dialogue/better use resources.

Similarly, substantial funding (approximately USD 1 billion per year) according to a recent internal study by Ayani⁷, is invested into agriculture, over half of which is from donors who typically finance MSMEs with capital or provide infrastructure or market access programs as well as natural resource management. Donor projects include World Bank (Sustenta,

⁶Financial Ecosystems Mapping, FTF Premier, January 2023, page 42.

⁷ Study on agricultural finance in Mozambique for internal purposes, Ayani BV, August 2023.

Catalytic Fund), USAID (FTFP, Resiliencia), SDC (PROMAS), EU (PROMOVE), GIZ (VAMOZ). Other funding comes from foreign direct investment, impact investors and development finance institutions and about 1/5 comes from financial institutions. More recently, there have been the emergence of projects to support MSMEs, including World Bank projects such as GREPOC and Economic Linkages for Diversification Project (EL4D).

In this context, SDC established Microbanco Futuro (“Futuro”). Its purpose is *to enable positive economic transformation for individuals and growing entrepreneurs in Mozambique*. To date, its efforts have been primarily in Nampula city, with some small outreach and pilots in rural areas. In 2020, Hollard Seguros invested as a shareholder in Futuro, bringing a shared vision of increasing financial inclusion. Although still relatively small, Futuro has been a disruptor offering deposits, insurance and credit in to MSMEs which would otherwise be excluded from the formal financial sector. It has attracted the attention of several donor projects mentioned above, as they seek partners to offer financial services to their beneficiaries.

The present evaluation looks at the capacity building support which SDC has offered to Futuro since its establishment to determine to what extent this support has led to

- enhanced sustainable employment and income for young men and women and the economically disadvantaged;
- low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs have increased access to affordable financial services, including loans, savings and micro insurance;
- low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs, improve their financial and business skills, supporting their sustainable business growth;
- Futuro improves profitability and outreach and continues to serve low income rural and urban men and women sustainably.

The evaluation was undertaken from September to November 2023. It included an institutional assessment of Futuro, primary data collection from its beneficiaries, secondary research in terms of the market, and interviews with key informants who are either partners of Futuro or sector stakeholders. A detailed analysis of the methodology is presented in Annexes 2. The evaluation utilizes the OECD/DAC Criteria (relevance, coherence, effectiveness, efficiency, impact and sustainability) and provides recommendations to both Futuro and SDC in terms of how to strengthen strategy and performance.

2. INSTITUTIONAL ASSESSMENT

The institutional assessment serves to inform the evaluation with regards to the effectiveness, efficiency and sustainability of SDC’s capacity building intervention. It looks at to what extent Futuro demonstrates capacity to provide financial services at scale to the target populations, to do so in a sustainable manner, and to continue without SDC’s capacity building over the long-term.

To achieve this, the institutional assessment looked at five key areas, as presented below:

Ownership, Governance, Mgt	Strategy and Market	Funding, ALM, Liquidity	Operations and Risk Mgt	Capital Adequacy and Regulations
Shareholding Directors Governance Management Staffing and Capacity Building	Market Competition Internal Capacity Funding Strategy Risks Financial Projections	Funding ALM	Portfolio growth Credit Mgt Portfolio quality IT, Compliance, Audit Financial Performance	Regulatory Framework Accounting Standards

Each point of the institutional assessment and evaluation criteria is categorized as follows:



The conclusions of this assessment are used in Section 4 to inform the evaluation criteria.

2.1 SHAREHOLDING STRUCTURE, CORPORATE GOVERNANCE & MANAGEMENT

2.1.1 SHAREHOLDER STRUCTURE

Futuro Mcb is a microfinance bank established in Nampula, Mozambique in 2017. Its primary aim is to provide financial services to individuals and growing entrepreneurs, especially women micro-entrepreneurs, in northern Mozambique. It is a public private partnership between The Swiss Development Cooperation (SDC) and a privately owned insurance company, Hollard Moçambique Companhia de Seguros, Insurance S.A. (Hollard).

At its establishment the founding investor, SDC owned 98% of the shares, with 1% held by each Antoine Maillard, Swiss National and Eduardo António Lucchesi Reis, Brazilian National and Chief Operating Officer. In 2020, Hollard entered as a shareholder of the bank, increasing the share capital from 70 million MZN to MZN 107.8 million MZN. The current shareholding structure is as follows:

2.1.1 Shareholding Structure



Shareholder	Value of shares (MZN)	Ownership stake
SDC	68,600,000	63.64%
Hollard	37,800,000	35.06%
Futuro Mcb	700,000	0.65%
Eduardo A Lucchesi Reis	700,000	0.65%
Total	107,800,000	100%

At the time of its investment, Hollard paid USD 1,000,000 (61,582,500 million MZN⁸) for nominal shares (37.8 million) plus a share premium of 23,782,500, retained on the bank's balance sheet in a legal reserve as equity⁹. According to Mozambique's commercial code, this legal reserve can be used to cover part of the losses from the current or previous periods and/or the incorporation of capital stock¹⁰. The statutory documents of Futuro Mcb do not specify a use for the premium, thus the Board and Management's interpretation that the premium provides additional funds which can remain in the bank, and used to cover losses appears to be in compliance with the law.

⁸ Exchange rate for December 2019, per date of shareholder agreement. [EVOLUÇÃO DAS RESERVAS BANCÁRIAS \(bancomoc.mz\)](http://EVOLUÇÃO DAS RESERVAS BANCÁRIAS (bancomoc.mz))

⁹ Relatório e Contas 2022, Futuro Mcb, page 22.

¹⁰ MOZAMBIQUE COMMERCIAL CODE DECREE 2/2005 OF 27 DECEMBER, [BOOK ONE \(osall.org.za\)](http://BOOK ONE (osall.org.za)), Articles 444-445.

For SDC, Futuro was the first shareholding position in a financial institution. It made this exceptional decision to safeguard an investment that it had made in the form of a grant to a microfinance investor for the purpose of establishing a microbank in Nampula. The investor ran into challenges, and SDC stepped in to ensure continuity. This decision had an important impact not only Futuro, but on the microfinance sector. Over the previous decade, many microfinance institutions had failed in Mozambique, and all operators in the North had pulled out, leaving a large, unserved market. SDC's decision to take over as Futuro's shareholder demonstrated that such an institution was not only needed but also possible to build in this environment. This decision was, however, not without challenges as SDC's processes and financing instruments were imperfectly adapted to a shareholder in a financial institution. Further, staffing turnover led to some evolving priorities and vision for Futuro as an investment. Despite this, SDC has been able to not only help the bank recover, identify strong BOD members and management, but also created mechanisms for providing needed capital in the form of capacity building grants. Finally, it was able to attract a like-minded private shareholder, who is familiar with the local market.



Hollard's motivation in making the investment into Futuro was primarily as an impact-investor. While it clearly anticipated that Futuro would be run as a sustainable business, it did not make the investment seeking large financial returns. From this perspective, Hollard is generally satisfied with the investment. Also from this perspective, it seeks greater outreach and welcomes the growth plan. If Futuro demonstrates capacity to grow and eventual additional financing, Hollard has expressed an openness to providing such funding.

SDC and Hollard have in many ways been able to complement each other as shareholders. SDC has identified and funded the management and technical expertise on the board through its capacity building grants. It has introduced Futuro to agricultural and business development projects to serve as opportunities to pilot new markets and products throughout linkages. Hollard has identified partnerships, grant funding opportunities, provided risk sharing, and supported in providing financing facilities when the bank faces cashflow challenges during the COVID -19 pandemic. Both institutions have appointed BOD members who add value to the bank's governance.



For both shareholders, this has also been a learning experience. SDC, as the first type of direct investment as a shareholder in a banking institution, and Hollard as its first public-private partnership (PPP). It is clear that the shareholders have a joint purpose – the social mission- though Hollard’s expectations in terms of outreach, innovation appear to be higher than SDC’s. The new business plan does focus on innovation and outreach, addressing to some degree this aspiration.

In terms of the ideal shareholding for an institution like Futuro moving into the future, the inclusion of a shareholder with experience in investing in banking institutions, such as a microfinance investment vehicle (MIV), a microfinance network, or a development finance institution (DFI) would afford both shareholders greater confidence in the success of Futuro. Some potential investors bring technical expertise, systems and management capacity, which both shareholders note as welcome. The Business Plan calls for capacity building measures to support Futuro to prepare itself to attract new equity investors.

Table 4: Shareholder Analysis

Strengths	Challenges
<ul style="list-style-type: none"> • Committed shareholders, with shared purpose as social investors • Sufficient share capital, which remains comfortably above the required levels for its growth projections over three years • Openness on the part of both shareholders to changes in the shareholding composition in the coming years. Shared ideas as to the profile of the potential new investor. • Shareholders complement each other in terms of support to Futuro’s capacity building and funding requirements. 	<ul style="list-style-type: none"> • Neither shareholder has experience as an equity investor in a microfinance or banking institution. • SDC, as a government agency, is not well placed to respond to potential demands such as capital calls, short-term financing needs, or to ensure continuity of vision as focal points change • Expectations by shareholders for Futuro over the past three years in terms of growth in size and diversity in the market have not always been met.

2.1.2 EXECUTIVE AND NON-EXECUTIVE DIRECTORS

The Board of Directors (BOD) is composed of seven members, of which six non-executive and one executive. They are appointed by the shareholders, with one independent member. The table below presents a short profile of the BOD members.

2.1.2 Executive and Non-Executive Directors



Table 5: BOD Members	
Member / Inst	Background
Pierre Strauss SDC	Career diplomat, with experience in economic and political cooperations. He has worked on corporate social responsibility, as well as design and oversight of private sector and financial sector development programming for the Swiss Cooperation in Mozambique.
Klaus Maurer SDC	40 years of experience in financial systems development in 46 countries, with a focus on microfinance, rural finance and SME finance. He has chaired the board of investment funds investing in microfinance and sits on the board of a number of microfinance institutions around the world.
Norbert Fuchs SDC	Approximately 40 years of experience in banking and banking advisory services, with global experience including in Africa.
Israel Muchena Hollard	Managing Director of Life and Agricultural Insurance at Hollard Mozambique, with a background in insurance throughout Southern Africa as well as Nigeria and Brazil. He coordinates the Inclusive Insurance Sub-Committee of the National Financial Inclusion Strategy of Mozambique.
Bruna Quintas Hollard	General Manager for the Employee Benefits division of Hollard Mozambique, responsible for the business development, reinsurance structure and overall performance of the division which includes several product lines ranging from group health to workmen's compensation.
Mirko Manzini Independent	25 years of experience in the diplomatic and humanitarian fields. Served as Ambassador of Switzerland to Mozambique, supporting the peace process between the Government of Mozambique and RENAMO in his capacity as Chief Mediator and President of the International Contact Group. Served as UN special envoy to Mozambique.
Eduardo Lucchesi Reis Executive	CEO of Futuro Mcb with over 35 years of banking and microfinance experience, including leadership roles with Accion International as well as Brazilian banks, Santander, Itau/Unibanco and Banco Nacional. Served president of the Brazilian Association of the Societies for Credit to Microentrepreneurs and Small-Sized Companies in Brazil between 2010 and 2012.



The board is a-typical for a commercially-oriented microfinance institution, which often would have more microfinance and banking specialists, but overall, it has served Futuro Mcb well. Interviewed BOD members demonstrate appropriate levels of knowledge and engagement with the institution. They demonstrate a commitment to the vision and mission, and a willingness to dedicate effort to oversight and support. The skills area appropriate for Futuro’s current needs as well as for the recently approved three-year plan.

Two areas for consideration as BOD members rotate off, and their replacements are sought include

- Representation from the Mozambican Banking Sector - Futuro is small player in the market, which could benefit from strong linkages with large (more liquid) commercial banks, as well as stronger contacts with the Bank of Mozambique. Further, it is one of the few licensed credit institutions which is not headquartered in Maputo, isolating it from sector dialogue. A board member based in Maputo with strong ties to the banking sector and regulator could be beneficial in terms of understanding the market risks, the anticipated changes in regulation and financing opportunities.
- Gender balance- Futuro has defined one of its business principles as “*Financial Inclusion: Providing access to adapted financial services to the financially excluded, including women, agriculture producers and informal business owners.*” Institutions which target women, typically also measure gender balance at all institutional levels (staff, management and BOD.). There is one woman out of seven BOD members.

The following table summarizes the strengths and potential areas of improvement in terms of BOD composition.

Table 6: Analysis of BOD	
Strengths	Potential Areas for improvement
<ul style="list-style-type: none"> • Unique composition, but good mix of skills. Each member brings something unique and important to the board’s composition including microfinance expertise, banking/financial risk management, knowledge of financial inclusion in local markets, professional network in the country • High level of dedication, commitment to success of Futuro • Appropriate level of independence • Solid level of knowledge of Futuro’s strategy, position, needs and evidence of support provided by each board member within their capacity • Most members are not remunerated, but this is not a point of contention. • Meetings are to be held quarterly, and minutes reflect that since August 2022, four board meetings have been held. • Topics discussed in Board meetings appropriate for its role (strategic, fiscal, compliance, statutory documents), and includes questions of compliance with regulations 	<ul style="list-style-type: none"> • Local knowledge of banking sector and higher level contacts with Banking Supervision Department at Bank of Mozambique could facilitate that relationship, in particular because Futuro’s head office is not in Maputo • Gender balance - 1/7 members is female

2.1.3 CORPORATE GOVERNANCE

As Futuro plans expansion over the coming years, the functioning of the BOD committees will become increasingly important. This will require likely an adjustment in the composition of the committees to ensure that right mix of skills.

- *Audit committee*- established in Sept 2020 includes neither the banking nor the microfinance specialist among its members. The inclusion of the microfinance expert would help strengthen this committee. This includes quality of the audits, the adoption of risk-based process audits by the internal auditor as well as oversight that the findings are tracked, resolved and included in future audits. Further, regularly scheduled meetings of this committee should precede BOD meetings in order to permit reporting.
- *Remuneration and Risk Committees* – established in October 2022 and September 2023 respectively, these two committees do not yet have minuted meetings. The Risk committee is still being composed. It is recommended that the risk committee include the banking expert, who can bring knowledge as to financial risks and international market risks, as well as at least one representative from Hollard, who can bring knowledge of local market risks.



At the management and operational levels, the Executive Committee (EXCOM), composed of the entire senior management team (see Section 2.4) effectively also operates as the Asset and Liability Committee (ALCO) and the Risk Committee. Credit committee composition is segmented by loan size and product.

- *ALCO* - Meeting minutes demonstrate regular consideration of appropriate level of institutional performance trends, financial requirements and achievement of targets. This committee also monitors compliance with Bank of Mozambique's
- *Risk* - At a meeting on 23/08/23, the EXCOM reviewed key risks approved a risk management action plan which considers external risks (impact/probability) and plans mitigation actions (e.g. devaluation, monetary policy, political insurgency, economic deceleration, etc.). It also considers internal risks (portfolio, productivity, financing, rollout of technology). It considers Futuro's performance against national benchmarks (capital, asset quality, profitability, liquidity). The risk assessment was aligned with institutional and market realities.

- *Credit* - The credit committee makes unanimous decisions. Approval authorities are allocated as follows:
 - ⇒ Board: > 5,000,000 MZN
 - ⇒ EXCOM: 500,000 to 4,999,000 MZN
 - ⇒ Delegated committees: < 500,000 MZN. These are segmented by loan product.

At the time of the assessment, no exposures exceeded 5 million MZN. The loans exceeding 500,000 were approved by an EXCOM credit committee, which met weekly. The level of evaluation by committee members was appropriate. Randomly selected credit files demonstrated delegated levels of credit committee approval for all loans.

As will be discussed in Section 2.4, the inclusion of the whole EXCOM in these committee meetings provides a coaching opportunity for management committee members.



The ability of these management level committees to perform their functions depends a lot on the information that they have available to them. There is evidence of recent (over the past 12 months) substantial improvements in the level of information received in terms of Financial Analysis, Compliance with Bank of Mozambique regulations and credit risk at the level of an individual application due to the strengthening of these teams. Resulting from:

- Finance Manager hired in 2022
- Dedicated staff overseeing reporting to Bank of Mozambique / regulatory compliance
- Credit Manager hired in 2023.

Further, there is a plan in the organizational structure to hire a new risk manager. Additionally, the business plan calls for a second staff person in the internal audit department. These additional changes will be important to ensuring that management and board have sufficient information for oversight and decisions.



An interview with the Bank of Mozambique's Deposit Guarantee Fund indicated that Futuro Mcb's data availability and capacity to handle transactions was substantially better than other microbanks in the country. Further, the Bank of Mozambique carried out its first ever inspection in June 2023. The report was not yet available as of the time of the present evaluation, but the action plan demonstrates that findings with regards to financial reporting were not substantial, though the internal audit function required strengthening.

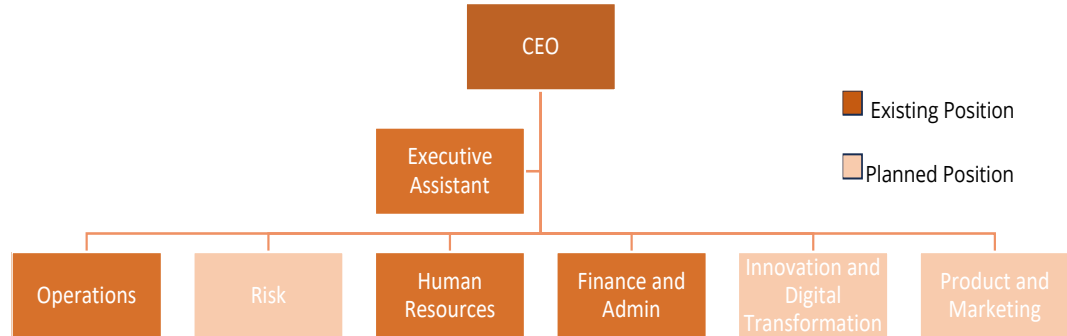
Overall, the level of corporate governance has been appropriate for Futuro's current size, as has evolved as the institution matures. There will be a need for strengthening in the coming years, but this is known by the Board and management, anticipated in the business plan, and evidence is underway of both hiring and coaching to ensure this improvement. The following table summarizes the strengths and potential areas of improvement in terms of corporate governance.

Table 7: Summar of Corporate Governance	
Strengths	Potential Areas for improvement
<ul style="list-style-type: none"> • All key board committees are composed <ul style="list-style-type: none"> ○ Audit Committee Sept 2020 ○ Remuneration Oct 2022 ○ Risk Sept 2023 • Management committee effective, meeting regularly and addressing appropriate information • Gaps in staffing for areas of credit, risk, compliance, internal audit identified and planned. Some positions starting to be filled. • Recent (and first ever) Bank of Mozambique inspection identified very few adjustment needed in financial reporting (specifically calculation of impairments). 	<ul style="list-style-type: none"> • BOD Committees still nascent operationally and composition could be improved (e.g. more technical knowledge of microfinance on audit committee and regular meetings; risk committee just approved not yet populated.) • Gaps remain in credit, risk and internal audit function, affecting quality of information presented to committees and capacity to monitor correction of findings • Credit manager focused on risk on the level of individual applications (i.e. performs a review prior to submission of application) and collections. Not yet carrying out portfolio risk analysis – such as vintage analysis, sector analysis.

2.1.4 MANAGEMENT

According to the business plan, the management structure is as follows:

Figure 3: Proposed Organizational Structure



This structure is logical for Futuro's planned needs. Some institutions separate banking operations from the business (i.e. the field team), but for the planned size of Futuro of the next five years, the proposed structure is feasible.

The profiles of the current management team are presented below.

Table 8: Management Team	
	Profiles
Chief Executive Officer (CEO)	Highly skilled in both microfinance and banking with over 35 years, including leadership roles with Accion International as well as Brazilian banks, Santander, Itau/Unibanco and Banco Nacional.
Operations Manager	20 years of MF and bank (credit risk analysis) experience. Understands current operations well. Strategic leadership in particular as the bank is moving into new areas and approaches is an area for growth.
HR Manager	10 years of banking experience in Brazil prior to joining Futuro. Experience in different aspects of the bank (operations, commercial, technology/ cryptocurrency). Demonstrates strong creativity, ability to diagnose challenges, and potential to grow into senior management role with mentoring.
Finance Manager	Solid background in accounting and audit. Good understanding of key areas of risk. New to banking, but demonstrated an understanding of reporting, financing and financial risk management needed for position. Coaching/mentoring needed as he gains experience in banking.
Executive Assistant	Background in accounting / financial management, primarily in agribusiness. Previous experience in Futuro accounting department. Demonstrates willingness to learn and take on new responsibilities, and is being considered for one of the open positions as Risk or Innovations Manager.



The CEO is a strong leader, whose approach to management is designed to train up the management team, which is mostly composed of a young, energetic who demonstrate enthusiasm and capacity to learn. The Operations Manager is the one member of the team who brings more experience and good grasp of the operations as they are today, but showed relatively less of a strategic or growth-oriented mindset. This position will become more critical with the branch expansion.



All members of the senior management team are men. As Futuro expands its team, there is an opportunity to seek greater gender balance.

In looking at the senior management team, much of the skills and capacity for both strategic and day-to-day management relies heavily on the CEO. There is a training and coaching plan in place, and implementation was evident during the assessment. A key aspect of the coaching is to include all members of the senior team in committee meetings (ALCO, Credit, Risk) to train them in looking at all key aspects of the institution. The team works cohesively.

Given this situation, Futuro Mcb faces key person risk in that it remains highly dependent on the CEO. There is a clear plan in place and being implemented to strengthen the management team, but this capacity building needs to be seen as a long-term succession plan. None of the current managers would be in a position to take over the role as CEO in the next couple of years.

The CEO has informed that BOD that he will be leaving in two years (2025). Given the critical nature of this role, coupled with the challenges of recruiting a person with the right skills, coaching capacity and cultural fit, who is willing to be based in Nampula, the recruitment of a replacement needs to be treated as a priority, which the BOD should initiated in 2023. While the decision to bring on a new shareholder is under consideration,¹¹ and could potentially impact the CEO selection process, it would be ideal for the BOD to consider this in parallel to its own search.

In terms of mid-level management, this is recognized as an area for growth in the business plan¹². Presently there is one branch manager, who demonstrates solid capacity, commitment to performance, and problem-solving skills. The business plan calls for branch expansion, starting in 2024, thus the focus will be on identifying and training branch managers for this expansion plan. Other mid-level management positions including Head of Credit, Head of Compliance and IT are relatively new to their positions.

¹¹ The question of potential changes in shareholding is beyond the scope of the present assessment, though both shareholders and several BOD members highlighted this as potentially having an impact on the CEO selection.

¹² Business plan, p 15



- The Heads of Credit and IT both joined Futuro within the past year. They both demonstrate a good level of technical skills and ability to take initiative, but also require support to be able to respond fully to Futuro's future needs. Futuro has planned technical support in IT, which is both critical to its needs and an important opportunity to build the capacity of its new Head. The Head of Credit has taken on the most urgent needs of his roll (credit analysis and loan origination), but will need training and support in deeper portfolio analysis. This capacity building can likely be carried out in-house by members of the senior management team.
- The Head of Compliance has been a member of the finance team, and acting Finance Manager prior to taking on this role. She demonstrates a good understanding of the reporting requirements and regulatory limits which needs to be monitored and submitted to the BoM. She has not taken on other aspects of compliance (e.g. legal, contractual, tax, non-financial regulations). She does participate in management committee meetings, in an effort to strengthen her capacity.

Table 8: Summary of Management	
Strengths	Potential Areas for improvement
<ul style="list-style-type: none"> • The planned management structure largely responds to Futuro's business plan needs • Mostly young, enthusiastic senior management team who demonstrate capacity to grow. • Areas which require strengthening in terms of mid-level management are known, anticipated in the business plan and already underway with recent hires. • Capacity building secured or planned to support key areas including HR, IT, Risk and Compliance. 	<ul style="list-style-type: none"> • Futuro's present structure continues to remain heavily on the CEO, who will be departing in 2 years, presenting an urgency to identify a replacement. • Futuro may consider eventually dividing the Operations position into Head of Banking Operations (overseeing the branch functions) and Head of Credit Operations (overseeing the client officers), especially as the number of branches grows.

2.1.5 STAFF AND HUMAN RESOURCE MANAGEMENT



At the end of 2022, Futuro had 77 staff of which approximately 77% are branch staff. Futuro's business plan anticipates a growth to 200 by 2025, retaining the same ratio of branch to total staff. This implies that, as the branch operations expand, Futuro will also strengthen the institution to be able to manage that growth.

At present, branch operational staff demonstrate competency in their work. Field staff have developed a solid reputation among their clients (especially the microenterprises – MEs) as being friendly and supportive of their needs. Client officers are segmented by product, which affords them the ability to specialize to meet the needs of different clients. Interviews with long-term and recently hired client officers indicate a decent understanding of client analysis and monitoring, as well as internal processes. Some additional support in the use of ratios, internal benchmarks (for example profit margins of a typical wholesale business or value of a typical type of asset used for collateral). Also, they did not tend to have a good sense of the value of their outstanding portfolio or NPLs, rather they were focused on activity targets (number of visits, number of loans disbursed, value disbursed, number of clients in arrears.) As the incentive system is defined, it would be important to ensure that product staff are incentivized to regularly monitor their growth and risk.

A key element of the strategy to achieve and manage this growth will be the introduction of a new performance-based system of human resource management, which Futuro hopes will promote internal recruitment, career advancement and retaining top talent, while motivating its workforce. This new HR management approach represents a key component to the efforts to build its management team, along with its capacity to grow. These efforts are being carried out with technical support of an external firm, and under the leadership of the HR Manager, who demonstrates solid leadership in this area and ability to leverage the support being provided by the external firm.



See more on capacity building plans in Section 2.2.

Table 9: Summary of Staff and Human Resource Management	
Strengths	Potential Areas for improvement
<ul style="list-style-type: none"> • Dedicated staff who largely share the vision, mission and values • Branch-level staff show high levels of competency in their jobs • Client feedback indicates strong client-focus and “friendly staff” as strong points in favor • Staff expansion plan shows high growth, but if all planned capacity building in place, achievable. • Futuro has demonstrated capacity to successfully roll out capacity building initiatives. • Staff and areas of capacity building are well identified and largely planned in the business plan. 	<ul style="list-style-type: none"> • Many of the back-office managers are new to their roles, requiring capacity building on many fronts simultaneously. • The introduction of the new performance-based HR management system is being done simultaneously to other major changes. This implies that its first year – in which it will be tested – is also the first year of opening branches outside of Nampula, introducing a new core banking software and other back-office systems. This is more of a risk than an area for improvement, but regular monitoring of this system and its impact will be very important. • Business plan could anticipate the creation of an agridesk, with in-house agricultural finance skills, to support planned agricultural expansion. • Certain aspects of capacity building could be deepened to ensure the anticipated results such as: <ul style="list-style-type: none"> ○ prioritizing definition of branch processes as part of organizational development; ○ support in the procurement of the most appropriate core banking software during the life of the business plan as part of digital transformation, a ○ implementation of an ESG policy.

2.2 STRATEGY & MARKET

As can be seen from Section 1, most businesses in Mozambique – and the North in particular – are in informal and small. While access to transaction services is increasing for MSMEs in this region, they continue to struggle to access appropriate savings, loans and insurance products. Rural areas, in particular agriculture, are relatively less served. This context offers a large, unserved market of MSMEs which Futuro could explore.

Futuro has developed a five-year business plan, which was approved in 2023. The assessment considers the entire business plan, prioritizing the first three years, as market uncertainties make it very difficult to predict opportunities and threats for a five-year horizon. The strategy seeks growth in outreach and achievement profitability through three main approaches:

1. *Geographical expansion:* Presently Futuro works almost entirely in Nampula city out a single branch, with a small number of clients in Namialo, approximately 50 km from Nampula City. It anticipates expanding its operations to 9 districts in Nampula, Zambezia Niassa and Cabo Delgado provinces over a five-year period.

Figure 4: Branch Growth Plan

Operation start date	Out-17	Mar-24	Ago-24	Mar-25	Ago-25	Mar-26	Ago-26	Ago-27
Branches	*		*		*		*	*
Satellites		*	*	*		*		
Branch name	Nampula		Mocuba		Lichinga		Cuamba	Pemba
Satellite name		Namialo	Ribaue	Nacala		Erati		

2. *Client growth in existing market segments:* Futuro serves MSME's, which may be formal or informal businesses. Products are largely defined by segment, as indicated in the table below:

Table 11: Client Segmentation by Product				
	Group	ME (Individual)	SME1	SME2
Employees	Self-employed	<2	2-10	>10
Revenues (MZN/year)		Up to 600K	600K – 3.6 million	3.6 - 30.0 million
Activity	Commerce, Service, Agriculture	Commerce, Service, Agriculture	Commerce, Service, Agriculture Industry	Commerce, Service, Agriculture Industry
Loan size (MZN)	4K-30K	Up to 50K	Up to 300K	300K – 2.5 million

There is little change anticipated in the allocation of the clients by segment, with a slight trending two MEs and Groups over five years:

Table 12: Percent of loan clients by segment

	2023	2024	2025	2026	2027
SME II	4%	4%	4%	3%	3%
SME I	20%	18%	18%	18%	16%
ME	52%	46%	50%	50%	54%
Group	24%	32%	28%	29%	27%

Similarly, there is little change anticipated for the distribution of portfolio volumes by segment, but showing a small shift toward SME II over the first three years, but then refocusing on MEs and Group in the last two years.

Table 13: Percent of Loan Portfolio by Segment

	2023	2024	2025	2026	2027
SME II	32%	38%	36%	29%	30%
SME I	38%	33%	33%	37%	33%
ME	23%	23%	25%	27%	30%
Group	6%	6%	6%	7%	7%

3. *Diversifying products and channels offered to existing segments:* The plan anticipates the offering of a specific product for the agricultural sector, planned revisions to savings services and an important investment branch and digital point of service expansion.

Products: The major change which Futuro anticipates is in expanding its outreach to agriculture. This is both on the savings and lending side. Aside from this, no new products are anticipated.

- Savings - a savings campaign will focus on the rural population, which will be adapted to agricultural cycles. This campaign will be accompanied by financial literacy.
- Lending - the business plan anticipates some support to the bank to develop agricultural loan products. Its anticipated growth in outreach to the sector is relatively conservative.

Table 14: Number of Agricultural Loans

	2022	2023	2024	2025	2026	2027
Active borrowers	5,401	8,477	12,202	17,052	24,920	33,034
Agri-loan borrowers ³	810	1,483	2,440	3,836	6,230	9,910

Channels: Digital services represent an important aspect of the plan. It has already started to implement some aspects of the digital roll out, by introducing a digital platform which allows for the monitoring of client officer's field work, as well as allowing payments to be made through M-PESA. Its business plan, however, calls for much more than this. For example, the digitalization of much of the current paper trail and process workflows, permitting digital approvals. It also is looking at automated credit scoring options, which could minimize error in loan appraisals as it grows. Finally, by allowing for transactions to be made through USSD, which would permit clients to transact with their savings accounts without coming to the branch. The implications of this change are very important to the way the Futuro could do business with clients, for example, loans could be disbursed into savings accounts to be accessed virtually, removing the necessity for in-person transactions at the branch. As Futuro spreads its operations to less dense geographical areas, this adjustment will be necessary.¹³

¹³ Departamento de TI - Infraestrutura e Projetos 2022-2023

2.2.1 MARKET

2.2.1 Market



Futuro's estimates a potential target population in selected geographies of 528,000. This implies that it hopes to service approximately 6% of this market with loans and 8% with savings services.

Futuro has good brand recognition as a lender among its target market in Nampula, though less so among typical bank clients. It is viewed as an institution invested in its clients' success and as meeting the priorities of clients including accessible credit services, friendly staff, payments via M-PESA, good customer service and offering of insurance on credit. It is less recognized for its savings services, and in fact many of its clients save most of their money either with informal providers (savings groups) or mobile money operators (MMOs) such as M-PESA, underlying the importance of convenience for savings and transaction services.

While Futuro's growth strategy does anticipate expansion of savings, it is not the main driver of funding. The strategy's primary focus is in expanding its loan portfolio, which is where it has a clear advantage in a market where there are few providers, and none that have the reputation as solid providers to Futuro's target group.

In terms of its ability to expand in the market, Futuro is in the advantageous position of being well liked and respected as well as almost alone in its present and targeted markets for expansion. Competition will not likely pose a real challenge to Futuro in terms of lending and insurance services, though it will require a good marketing strategy and improved offering (through digital channels) to build a reputation as a strong provider of savings services.

2.2.2 COMPETITION

2.2.2 Competition



Futuro's major income earner is lending, which represents over 99% of financial income throughout the projections. In its business plan, Futuro assesses its main competitors as follows:

Table 15: Futuro's Competition per Business Plan						
	Microbanks			Commercial Banks		
	MyBucks	SOCREMO	Bayport	Ecobank	First Capital	Access
Segments	Salaries SME	MSME	Salaries SME	Salaries SMEs	Salaries MSMEs	Salaries MSMEs
Branches in North	5	2	4	1	1	1
APR	42%	72%	43%	62%	36-40%	42%
Loan Period (months)	6-12	12-24	6-72	3-24	6-48	6-24
Collateral	150%	150%	Salary	150%	120%	150%

As will be described in more detail in Section 3, the reality is that these institutions are barely felt in Futuro's target market. The average loan sizes tend to be higher than Futuro's, and their outreach is relatively small. Clients and former clients from different segments who participated in the survey did mention such microfinance providers as SOCREMO, MyBucks, AfricaWorks, but none were considered relevant providers in their communities. Similarly, banks were known to participants, but not used at all by the ME segment, and primarily used by SMEs who also have salaried jobs to receive salaries and transact. They were not considered real options for borrowing.

Both SOCREMO and MyBucks have branches in Nampula, Mocuba and Nacala but no representation in the other target geographies. Access Bank has been working with GIZ to build an agent network, but is not widely promoting lending through these agents. None of these are actively serving Futuro's ME segment, and their outreach to the SME segment remains limited, and - to date- not felt by Futuro.



Similarly, with regards to the potential to serve as a distributor of insurance services to the informal market, there are few providers which are better placed to reach MSMEs (with the exception of agricultural input suppliers as they expand to rural markets). This is a very small percentage of projected income, and as such increased competition in this area would have a limited impact on the feasibility of the business plan.

For its savings products Futuro does face real competition from MMOs, who are serving over 80% of the adult population in Mozambique (though women are relatively less served than men). Most projected deposits are "mandatory deposits" held as guarantees against loans. Voluntary deposits are projected to fund only 4% of the loan portfolio in 2023, increasing to 8% by 2027. This implies that even if they are unable to reach their savings mobilization targets, its impact on the feasibility the plan, and in particular to reach is lending targets, will not be significant. For this reason, while savings is the one service that does face real competition, it is not a major driver of the feasibility of the business plan.

Futuro is well positioned from a market perspective at present, and with limited evidence that this may change over the next three years.

2.2.3 INTERNAL CAPACITY

The three main drivers of the business plan include geographical expansion, horizontal growth within existing segments, expansion into agricultural markets and diversification of channels to include new branches and digital channels.

At present, Futuro has already taken some important steps to plan for this. For example, it has introduced a product for the SME segment, and segmented its client officers by product. It has simplified its requirements for borrowers and linked to M-PESA for payments to reduce pressure on branches. It introduced a tool to permit off-site monitoring of client officer's field work. It has standardized staff trainings, and its client officers have sales and recovery targets. It has developed financial education tools and rolled them out to much of its exiting clientele and will use this as a marketing strategy in its first satellite branch area prior to opening financial operations. It has built a brand in the Nampula market. This groundwork is critical to Futuro's capacity to expand. In terms of the front-office operations, the expansion plan will be primarily replication, especially in the urban and peri-urban markets, where they can reach MSMEs working in trade and services, with a simpler set-up in satellite offices.

2.2.3 Internal Capacity



At the institutional level, since last year, Futuro has also taken important steps which are readying it to move from a single-branch office to managing multiple branches in three provinces.

- Implementation of a hiring and coaching strategy to build senior management team.
- Restructuring of Finance Department and hiring of new Head of Finance.
- Strengthening credit appraisal with the inclusion of a review by internal control and the newly hired Credit Risk Manager.
- Strengthening recoveries by establishing separate responsibility for recovery
- Development of a performance-based HR manager, which also focuses on institutional culture, career path and training, to be rolled out
- Hiring of a new Head of IT, who is currently undertaking a review of the specification required for a new core banking software and testing a new one, and sourcing of a technical advisor to support the process of digitalization
- Updating of policy manual and identification of a consulting firm to support in the revision of internal procedures and workflows
- Creating a position dedicated to reporting and compliance with Bank of Mozambique regulatory limits.



In its business plan, Futuro has identified specific capacity building needs:

- Organizational development - preview and updates to the organizational structure, policies, and procedures, as well as the development of a risk management policy and system
- Human resource development / training - establish a robust incentive structure and bonding to retain good staff in the medium to long term, linking performance to training and career path. Development of incentive systems and employee stock option program (ESOP). Design in-house training system and training sponsorship program for staff, management and trainees.
- Digital transformation - - developing models, options, and recommendations for digitalization, customizing and integrating a new core banking system, developing credit scoring models, creating digital field applications for client officers, and establishing digital channels for clients through partnerships.
- Expansion of client outreach – Promotion of savings campaigns, financial literacy, market and feasibility studies, agriculture and value chain finance, partnership establishment.
- Futuro branding – website and social media presence.
- Legal advisory – Legal review, due diligence, legal documentation.
- Fundraising, investor relations – development of fundraising capacity (roles, responsibility), reporting capacity, impact/social performance assessment
- Investor acquisition – developing a sales prospectus, equity valuation, due diligence, promotion to potential investors, developing shareholders agreements.
- Within fundraising - there is a plan to include social performance management (SPM), but not specifically Environmental, Social and Governance (ESG). While Futuro has identified a firm to support development in this area, it is not budgeted in the capacity building strategy.

Some of these capacity-building areas may be supported through other partners, which are under negotiation. For example KfW, a loan contract currently under negotiation may be accompanied by technical support in the areas of ESG and agricultural finance.



These capacity building needs are largely responsive to the identified needs for Futuro. It is positive to note that there is a specific focus on building the institution. A few recommendations which are not necessarily extension to the planned activities, but comments as to areas where attention is needed:

- *Within organizational development* - the current branch processes work well for a single branch which is close to the head office. Some approval and even payment processes are integrated with the head office, and to date done manually (meaning they require signatures of head office staff. Due to the slow system, the branch also appears to have found some work-arounds, which imply that the real workflow and approvals (on paper) is not always 100% synched with the workflow and approvals within the system. An improved system will minimize the need for this, and an expanded branch network will create a need to ensure that electronic workflows are synched with the physical workflows so that they can be monitored offsite. As such, it is important that support with the organizational development not only focus on the back-office policies and procedures, but also establish clarity on the processes and systems within the branch as a matter of priority, in order to permit seamless branch expansion.
- *Within digital transformation* - it is strongly recommended that Futuro plan for support in the process of procurement and aquisition of a new core banking software appropriate to its needs. Systems will be discussed in more detail in Section 2.4.4.1, but there is a need It is noted that Futuro is currently testing *Kredits*, which is a system that has been used in Mozambique and with which the current Head of IT is familiar. This system has been described as a temporary (3-5 year plan.) The movement to digital will likely be a major success factor for Futuro, as it expands geographically and also seeks to compete for savings and transaction services with the likes of M-PESA and eMola. Kredits may be able to support Futuros' digital transformation, but if technology is a key part of the long-term plan, the right system is an important aspect.
- *With expansion of client outreach* - support for agricultural products is budgeted and partnership development is also planned for this area. Further, Futuro has apparently started discussions with Fintech, Hive-on-line, which provides opportunities to collect and monitor financial and performance data of farmers, cooperatives and savings groups. This is included in the capacity building plan, but not specifically identified in the staffing plan. Financial institutions without an "agricultural desk" typically fail to reach this sector effectively.



This capacity building plan provides a recognition that the bank requires additional institutional preparations in order to roll out the geographical expansion and growth plans.

- Prioritizing the mapping of branch level processes - to ensure that workflows are sufficiently automated to permit off-site controls and monitoring. (This is already planned but requires urgency as the first satellite will start lending in June 2024.)
- Selection of the best software – the testing of Kredits is positive, but technology is a key planned driver of growth now and into the future. As soon as the digitalization, marketing plans and agricultural loan products are designed, it would be important to assess the capacity of Kredits to meet the requisites, and if not, plan for an open procurement.
- More planning for agricultural lending - The business plan does not appear to recognize that agricultural lending may require substantial changes to the way business is done (e.g. integration of lending into value chain activities, developing tripartite relationships, regular discussions with Hollard in terms of insurance of covariant risks, hiring in-house skills in agriculture.). Agriculture is not anticipated to be a major part of the loan portfolio during the plan, but with creative linkages it could be. It is also likely that pricing will need to be revisited once agricultural products are developed, which may require partnerships to support/reduce costs.
- ESG – is mentioned but not specifically planned in the business plan. This will become important as it moves into agriculture. Futuro could find partnerships to support this investment.

In general, most of the institutional needs are known and anticipated in the business plan and the capacity building plan. This does not take away from the fact that institutional strengthening is occurring on many different fronts simultaneously, which is a challenge. Given Futuro's small size, with the current management and technical assistance plan, appears viable.

Technically, the greatest challenge to the business plan is the planned departure in two years of the CEO, who has been critical to Futuro's evolution to date. While work is underway to strengthen senior management, the team is young, and it is not likely that a successor can be built internally within two years. As such, the BOD needs to prioritize the recruitment of a replacement.

2.2.4 FUNDING CAPACITY

2.2.4 Funding



See Section 2.3.1 for analysis of current and expected funding strategy. It is emphasized in this section, since the funding strategy is a key component, and risk to the feasibility of the business plan.

2.2.5 RISKS

2.2.5 Risks



Futuro operates in a risky environment. Over the past three years, it experienced economic slowdown due to COVID-19 and delays in salary payments to government employees. Futuro has also confronted the challenges of mobilizing resources in such an environment. As such, it is important that Futuro identify and manage its major risks.

- Key Person Risk – The CEO has been key to Futuro’s success and to the development of the management team. His departure in two years’ time is a risk. The BOD is aware, there is not yet a recruitment plan.
- Funding – See Section 2.3.1. The business plan recognizes that this a risk, and seeks to mitigate it by including capacity building in this area. The BOD is also able to provide support, and interviews indicate that they are active
- Operational Risk- The business plan identifies and seeks to address the key operational risks (see Section 2.4).
- External Risks:
 - ⇒ Inflation: Inflation is less than 5% in Mozambique, but the bank has projected 10% inflation due to recent fluctuation. Per policy, it must ensure that any investments are remunerated above inflation.
 - ⇒ Slowdown of economy – Futuro demonstrated capacity to manage through COVID 19. The operations manual details contingency plans.
 - ⇒ Insecurity – Issues of crime are reported to be increasing in Nampula, which can include armed robbery. The policy lays out prevention and recovery procedures. In terms of insurgency, Cabo Delgado branch is not planned in the first three years.
 - ⇒ Devaluation- Avoiding exchange rate exposure is the most important step in minimizing this risk. Futuro’s BOD and management have demonstrated an understanding and are actively exploring options.
 - ⇒ Regulatory changes – Futuro regularly monitors to ensure compliance. Capital adequacy changes and reserve requirements could directly impact Futuro’s ability to grow. The growth plan does not come close to reaching the limits on capital adequacy, and the savings projects is small enough to reduce potential risk of decreased growth resulting form changes to the reserve requirements.
 - ⇒ Natural disasters: The policy manual details contingency plan for each of the common types of natural disaster. As it moves into agriculture, linkage with Hollard’s weather indexed insurance is also advisable.

2.2.6 FINANCIAL PROJECTIONS



Financial projections are discussed in the following sections:

- Funding – 2.3.1
- Portfolio growth – 2.4.1
- Portfolio quality – 2.4.3
- Operational costs- 2.4.5
- Profitability – 2.4.6
- Sensitivity Analysis – 2.4.6

The business plan in some ways is conservative in that it does not seek major changes in:

1. Target market segments, with the major exception of moving into agriculture
2. Loan portfolio composition in terms of segmentation
3. Sources of revenue and financing, where lending continues to be the major product.

It would be good for Futuro to check in annually – especially after the work on digitalization, marketing strategy and savings campaign is complete – to determine whether the savings and insurance products could eventually play greater roles in both the mobilization of resources and generation of revenues.



The most substantial change is the geographical spread and digitalization strategies, which will drive client growth. From a market and competition perspective, the targets appear realistic. In terms of institutional capacity to make these adjustments and manage the risks, it is a work in progress, though Futuro has done a good job of identifying the key areas of strengthening and has started to take steps to improve its systems and structures.

There are some key risks to achieving the plan, most especially ensuring continuity of leadership with the change in the CEO and capacity to raise funds. These are known and planned for, in accordance with discussions with management and BOD. The fundraising issue is also incorporated into the capacity building plan.

See Section 2.4.6.2 for analysis as to the sensitivity of Futuro’s business plan to different risks.

2.3 FUNDING, ASSET LIABILITY MANAGEMENT & LIQUIDITY

2.3.1 FUNDING

The business plan relies primarily on external borrowing for its growth through 2025, and additional equity investment in 2026.

Table 16: Funding Sources

MZN '000 000	2022 (Actual)	Sept 2023 (est)	2023	2024	2025	2026	2027
Savings	26.7	33.6	36.7	60.0	84.5	123.7	167.1
Borrowing	28.0	86.0	192.0	344.0	420.0	572.0	516.0
Equity	111.8	111.8	119.9	137.8	186.9	326.0	663.1

Futuro was making some progress on fundraising target as of September 2023, having identified approximately 149.6 million MZN from IFAD (127.4 million MZN) and Hollard (22.2 million outstanding MZN). It is in negotiations with Bank of Mozambique (for a KfW-funded local currency loan – amount unknown). Further, it had approached Symbiotics (\$ 2million), Incofin (\$2 million) and Equitis Fund (unknown), as well as some local banks. It will require an additional 194.6 million MZN (or USD 3 million) to meet its 2024 fundraising target.

Futuro assesses that its unique offering in Northern Mozambique make it appealing to social investors, but there are some challenges:

1. International lenders seek profitable MFIs. Futuro broke even (monthly) in June 2023, but will not likely reach annual profitability until 2024.
2. The minimum size of a deal is sometimes too big for Futuro's current size and capital base.
3. IFAD's loan establishes a limit of 110% of equity in hard currency loans. This would permit a little less than USD 1 million in additional hard currency borrowing. The loan is for a five-year period. This implies that fundraising must either be in local currency or seek to replace the IFAD loan in addition to raising additional hard currency.
4. Local borrowers tend to require collateral for lending facilities, and do not typically accept the loan portfolio as collateral.
5. Exchange rate risk is a real issue. Mozambique's currency saw a major devaluation in 2015, and it continues to face country risk in this regard. Futuro has been exploring hedging options, but for various cost and regulatory reasons, it is proving challenging. More local solutions, such as investing hard currency loans in the local banking system and using it as collateral to borrow locally are promising solutions.
6. Savings is uncertain as a source of funds, as the Bank of Mozambique has increased the reserve ratio several times, now at 39% of deposits.





This points to a challenging environment in terms of mobilizing resources. The Business Plan does call for capacity building support in this area, which would help, but this risk is an important one in terms of Futuro's ability to achieve its growth strategy. Hollard has demonstrated its willingness to lend as needed and additional funding could be explored. Savings – though it also presents some risk – could be explored more deliberately as a source.

The current funding sources that Futuro is seeking will not likely cause mission drift, though this consideration is important in seeking a new shareholder. Mozambique does have three examples of microfinance lenders moving upmarket and out of the MSME sector after a sale to new shareholders, thus the process to select a shareholder must necessarily include commitment to the mission in order to avoid this risk.

2.3.2 ASSET LIABILITY MANAGEMENT

Asset Liability Management is the responsibility of the ALCO. At present, all members of the Executive Committee (EXCOM) are also ALCO members.

Meetings are held monthly, in which funding is reviewed and write-offs are approved. According to interviewed staff, while the minuted meetings are monthly, in reality the EXCOM reviews almost weekly the key indicators. Liquidity and funding are major focuses. Cashflow have been produced daily since 2021.

The ALCO appears to be effective, and all management are aware of the financial requirements, availability of resources, strategies to seek resources and performance against sector benchmarks.

See Section 2.5.1 for a summary of ratios monitored.

2.4 OPERATIONS & RISK MANAGEMENT

2.4.1 PORTFOLIO GROWTH

The table below presents past and projected trends in client, portfolio and deposit growth.

Table 17: Growth Trends and Projections

		2017	2018	2019	2020	2021	2022	23-Aug	23-Dec	2024	2025	2026	2027
Active borrowers	Number	1362	4694	6485	5056	5549	5401	5711	8477	12202	17052	24920	33034
Voluntary savings	Number	0	26	344	1944	3931	5468	6913	10819	16793	24558	34033	44102
Loan portfolio	MZN million	11.7	42.3	62.2	88.7	137.4	171.4	197.1	272	454	621	841	1096
Deposit Portfolio	MZN million	1.7	7.4	10	21.1	20.4	26.7	35.5	37	60	86	124	167
<i>Annual Growth</i>													
Active borrowers	YOY Δ		245%	38%	-22%	10%	-3%	6%	57%	44%	40%	46%	33%
Voluntary savings	YOY D			1223%	465%	102%	39%	26%	98%	55%	46%	39%	30%
Loan portfolio	YOY D		262%	47%	43%	55%	25%	15%	59%	67%	37%	35%	30%
Deposit Portfolio	YOY D		335%	35%	111%	-3%	31%	33%	39%	62%	43%	44%	35%

Since 2017, Futuro has seen the number of active borrowers grow 3.5 times and its loan portfolio increase 16-fold. The rhythm of growth has not been consistent, a slowing of growth (and reduction in the number of loan clients) following the restrictions on travel imposed during the COVID 19 pandemic, which affected informal businesses disproportionately. Nonetheless, the average annual portfolio growth was 58% between 2017 and August 2023.

Table 18: Growth Trends Compared to Targets

MZN 000	18-Dec		19-Dec		20-Dec			21-Dec			22-Dec	
Whole Portfolio	Target	Actual	Target	Actual	Target	Rev Target	Actual	Target	Rev Target	Actual	Target	Actual
Loan Clients	7,663	4,694	14,071	6,845	20,059	6,025	5,056	24,833	7,240	5,548	8,790	5,401
Loan Volumes	64,091	42,300	139,067	62,200	227,407	80,900	88,700	330,371	155,400	136,064	254,700	171,451
Average Outstanding Loan	8	9	10	9	11	13	18	13	21	25	29	32
% achievement of client target	61%		49%		25%	84%		22%	77%		61%	
% achievement of portfolio target	66%		45%		39%	110%		41%	88%		67%	

It is important to note that Futuro's previous projections had been optimistic with regards to its growth. As can be seen from the table above, the projections laid out in the business plan 2017-2021 started falling well short of target by 2018. In 2020, the business plan was revised, though it did not fully reflect Futuro's shift from group loans to individuals, resulting in an achievement of portfolio targets but falling short on loan clients. It is not possible to assess whether the bank would have met its 2021 targets if the COVID-19 pandemic had not occurred, but it did experience substantially slower than projected growth in 2021 and 2022.

2.4.1.1 Past portfolio growth



2.4.1.2 Capacity to manage
planned growth

The projected portfolio growth averages 46% per year over the next five years, lower than previous growth, with the most rapid expansion anticipated in 2024 and 2024. This is lower than the average growth experienced in the previous five years.



Similarly, voluntary savings growth is anticipated to be somewhat more conservative than previous performance.

From an operational perspective, the growth appears reasonable, especially given the relatively low impact of the new initiatives in the growth plan (see next box).


As presented in Section 2.2.1, Futuro does not anticipate introducing new segments (for example, there is no anticipated salary-backed loans or corporate finance) and does not anticipate major adjustments in the distribution of the portfolio among its segments. In this manner, it has been relatively conservative in its growth strategy, and it largely ready for this expansion in terms of its products and credit operations.

The biggest changes to the products and services are related to:

1. Agricultural loans:

The business plan does not go into detail as to how the product will be developed, but agricultural loans are a part of the expansion plan. While projected growth starts out relatively slower and picks up in the last two years of the five-year plan, the representation of agricultural loans in the loan portfolio is expected to increase from 3% to 10% of the loan portfolio by 2025 and reach 15% of the portfolio and 30% of the clients by 2027.

Table 19: Projected Agricultural Portfolio



	2022	2023	2024	2025	2026	2027
Ag borrowers	810	1483	2440	3836	6230	9910
% of all borrowers	15%	17%	20%	22%	25%	30%
Ag portfolio	5.14	13.6	35.05	62.1	105.1	164.4
% of total portfolio	3%	5%	8%	10%	12%	15%

Futuro has made past efforts to link to agricultural development initiatives, including previous SDC projects, but partly due to geography and also partly due to the lack of expertise in agricultural lending by both the projects and the banks, they did not result in major expansion to the market.

The capacity building plan anticipates some resources dedicated to the development of an agricultural product, and a recent application submitted to the Agricultural development project, Feed the Future Premier (FTFP), could also provide resources to develop this further. There is a clear opportunity to explore growth via partnerships in the agricultural sector. For example, FTFP expressed a desire to support Futuro in identifying key agribusinesses with large networks of smallholder farmers to whom Futuro could provide financing integrated into the input supplier and/or off-taker relationship of the agribusinesses. SDC's project, PROSAS, is still in development. Given its targeting of the "missing middle", there may be other suppliers in the market better suited to financing its target market (for example, GAPI), but both PROSAS and Futuro are engaging in conversations.

A shift to agricultural lending is typically a major change from other microcredit products in terms of:

- Product design (tripartite agreements, integration with value chains)
- Cashflow management – high demands for loans - and withdrawal of savings – at the same time of year
- Risk management- given Mozambique’s vulnerability to climate shocks, appropriate insurance products against risk and- where relevant – price shocks would help mitigate covariant risk associate with agriculture.
- Data usage - Futuro is initial conversations with Hive-on-line, which is an interesting Fintech, permitting data collection and management, and could eventually be used for credit scoring. It could also support Futuro’s efforts to work with savings groups (see next box.)

Futuro’s planned capacity building in this area is important, but may be insufficient. Futuro may consider hiring specialized client officers and/or creating an agridesk to handle agriculture, and ensuring access to cash (such as via overdraft facilities) during peak periods. No such positions are specified in the business plan.



2. **Voluntary Savings**

As will be seen in Section 3, Futuro’s clients view it primarily as a lender. They like the savings option, but it not how they think of the institution. Conversations with client officers, likewise, indicated a priority focus on their lending responsibilities, with the offer of other services as secondary. At an institutional level, Futuro has developed processes to permit loan payments via M-PESA, but not yet savings deposits or withdrawals.

Futuro has planned a relatively conservative growth for its voluntary savings, anticipated to finance only 8% of the loan portfolio by 2027. It does plan for capacity building in developing a savings campaign, but it might also consider a bit of market research to ensure that it has the right design for its savings products. Futuro’s customers have some ideas:

- Develop savings products modeled on xitiques, similar to M-PESA
- Develop savings products which serve savings groups, where many of their clients save at the moment.
- Digitalization of savings to improve access
- Use the clients to market – for example provide umbrellas or signs (similar to Movitel and Vodacom) which they would be willing to use at their stalls and shops. Offer capulanas or hats to loyal customers, which would also permit greater visibility.

Further, Futuro’s branch staff believe that disbursing into savings accounts rather than cash could not only reduce foot traffic in the branch, but also

encourage savings. (This last recommendation is related to digitalization- see next box.)

3. **Digitalization**

Access to digital financial services has seen substantial growth in the Mozambican market. Over the past 2 years, rural expansion has also become significant. Users are increasingly comfortable in using mobile money services, and view MMOs as safe places to keep their money. SMEs, many of whom are also agents of fintechs such as Recarga Aki, Ponto 24, and often have bank accounts, also view the importance of reducing time and paperwork as important.

Futuro has taken some steps in terms of improving its use of technology. This includes not only front-end operations (e.g. linkage with M-PESA, adoption of Kobotoolbox for monitoring client officers, use of mobile app to assist in calculating some indicators during loan appraisal). Further, it has a standalone digitalization strategy, which looks at improving processes and services.



An important challenge to its current and planned digitalization is its core banking software, known as Loan Performer (LPF). This will be discussed in Section 2.4.4.1, but in order to implement any substantial changes, the software needs to be changed. The new Head of IT is currently defining specifications and testing a software, Kredits, which management has explained is a “temporary solution” likely for the next five years. As of the time of the evaluation, a final decision had not been taken, but signs were favorable. Given that digitalization is not only important to Futuro’s own strategy, but increasingly demanded by the market, a temporary solution of five years may be a long time.

Generally, the planned points in the digitalization strategy are well aligned with Futuro’s needs, it should consider seriously planning for a procurement of the optimal system for its plan, to potentially be adopted during the life of the present business plan.

2.4.2 CREDIT MANAGEMENT

Futuro's loan origination process is in line with good practices for MSME lending. Client officers proactively seek clients through visits to markets and other businesses within their profile. They work against daily, weekly and monthly targets, and progress is tracked using a digital system, Kobotoolbox. Client officers appraise interested clients and support interested and qualified applicants to fill out loan applications. The loan appraisal process is carried out onsite by a client officer, and business and household financial statements are estimated using existing financial information, assessment of assets and stocks, viewing of bank statements and cash-on-hand, assessment of sales and purchases on credit. Credit history, collateral and reference checks are also assessed, as well as basic KYC documentation and that of guarantors. A standard form permits the analysis of repayment capacity, which drives the recommended loan amount, terms and payment schedule.

2.4.2.1 Credit Origination Process



Each segment has dedicated client officers, who are specialized in the product offered to that segment. Appraisal forms and the level of analysis is increasingly more vigorous as loan size increases. Following the client officer appraisal a supervisor visits and, upon acceptance, sends the loan application to the Internal Control team, which does a compliance review and second visit. Once signed off by internal contract, depending the size, the Credit Department assesses and determines whether to bring it to credit committee. Prior to credit committee, a check with the national credit reference bureau is carried out.

The policy allocates different authority levels depending on size of loan. Credit committees in practice are distinguished by client segment. Operationally, the team that deals with credit is distinct from the branch management. The Branch team handles the contract signing, disbursement, repayment processes and back-office processes including ensuring all data from the loan files are updated in the core banking software and loan files.

Credit scoring remains a very manual system, though as part of the digitalization process, much of the work is expected to be done this apps and credit scoring is expected to be automated. It would also assist client officers if the standard appraisal process provided them with key financial ratios, how to analyze and internally generated benchmarks.



Futuro does not yet have an ESG policy, but it has drafted a plan an action plan which includes the development of a policy and related tools (screening, due diligence, exclusion list, monitoring, grievance redress mechanism). It further anticipates the recruitment of an ESG specialist, training, client support and key steps to implementation. Futuro is reportedly discussing the possibility of receiving support in implementing this plan from potential partners. It has initiated a self-assessment and is planning an external evaluation of MFR¹⁴ if required in order to be certified in Cerise/ Social Performance Task Force (SPTF) principles. According to management, MFR can also conduct an environmental rating, but their standards may be difficult for a microbank. Futuro is looking at other options.

Although not in a systematic way, there is some evidence of adoption of certain social and environmental principles as evidenced by:

- Transparency in pricing - interest rates are stated in APR and fees are clearly indicated in bold in the loan contracts.
- Financial education program in which client adoption of good management practices is tracked and monitored
- Client feedback, which indicates that the bank is known for support to clients in helping them to grow
- Observed loan file in which an SME selling logs was not approved because no license was available.
- The questions of gender representation on staff have recently been re-ignited with the on-going revisions to HR management, and a management dashboard will start to include both staffing and client data by gender as part of management reports.

Some areas, which are low-hanging fruits that Futuro could consider even before the ESG manual is finalized include:

- Regular tracking of some indicators which have already been defined by SDC in its agreements (growth in income, number of employees), which could be incorporated in data collected through Kobotoolbox, and eventually the new digitalized loan applications.
- Inclusion of an exclusion list which considers common types of businesses which appear of international lists, applicable to MSMEs, such as: sale of charcoal (several approved loan files were observed for MSMEs selling charcoal), financing of bars or businesses which earn most of their revenues from the sale of alcohol.
- Common issues with agriculture - evidence that forests will not be cleared, ensuring safe distance from water sources, etc.
- Ensure the digitalization plan and ESG plan are integrated.



Monitoring is also carried out in line with good MSME practices. Client officers have monthly targets, as well as weekly and daily plans. Their monitoring plans are tracked in Kobotoolbox. Monitoring plans distinguish between regular monitoring visits and visits related to recoveries.

Officers and supervisors utilize reports produced by LPF which show which loans will fall due, which loans are overdue, in order to help them prioritize. The policy manual maps steps for monitoring delinquency, which are followed and tracked. Client feedback demonstrates regular (and generally positive) contact with Futuro client officers, and the understanding/comfort that if a business is having difficulties, clients should contact their client officers to visit/support.

NPLs have been high and worsening over the past few years. The economy has been hit with a series of shocks including COVID, food and fuel inflation following the war in Ukraine, and some more recent local challenges related to long delays in salary payments to public servants. Futuro has worked to assess which segments have been most affected by these various shocks and have found that the ME segment is generally more vulnerable. Its institutional policies now contain several clear procedures as to how to address different external shocks. The upward trend in NPLs is of concern to management. Once per week, the EXCOM spends approximately half of a day reviewing the delinquency report.

A recoveries team has been put in place and is supported by legal advisors.

¹⁴ [MFR Global Rating Agency \(mf-rating.com\)](https://mf-rating.com)

2.4.3 PORTFOLIO QUALITY

Table 20: Trends in Portfolio Composition

MZN ' 000	21-Dec		22-Dec		23-Aug	
	#	%	#	%	#	%
Individual						
Loan Clients	4,331	78%	4,125	76%	4,559	78%
Loan Volumes	2,027,378	95%	2,567,692	95%	2,965,965	96%
Average Loan Size	468		622		651	
Group						
Loan Clients	1,217	22%	1,276	24%	1,258	22%
Loan Volumes	108,634	5%	123,846	5%	119,592	4%
Average Loan Size	89		97		95	
Whole Portfolio						
Loan Clients	5,548		5,401		5,817	
Loan Volumes	2,136,013		2,691,538		3,085,557	
Average Loan Size	385		498		530	

The table above presents the loan portfolio trends over the past three years by segment using the BOM exchange rate of USD 1 = 63.7 MZN. As can be seen, the individual loan portfolio represents 96% of the loan portfolio and 78% of the clients. The trend is to move away from groups. This is driven by two considerations: i) Futuro has found (and client focus groups confirm) that groups are no longer preferred by MEs in the urban environment and ii) for efficiency purposes, the average loan size are very small, which negatively affects efficiency and profitability. A sharp increase in the average loan size in 2022 (as the economy emerged from COVID) resulted in continue upward trends in lending, even though number of loans reduced. Of the individual loans, 84% of the portfolio is invested in working capital loans, with the remaining 16% in investments.

In terms of sectors, the portfolio has traditionally been concentrated in Trade and Commerce, followed by “Food and Agriculture” – which also includes sale of fresh foods, which makes up the bulk of this sector for Futuro. The increase in food related businesses is notable over the past three years. The other sector trending upward is transportation.

Table 21: Distribution of Portfolio by Sector

	12/21	12/22	8/23
Food and Agriculture	29%	38%	56%
Electronics	6%	0%	0%
Services	0%	1%	1%
Mining	0%	0%	1%
Real Estate and Construction	5%	5%	5%
Trade and Commerce	54%	46%	27%
Transport	7%	10%	12%



Most loans are between 3- and 12-months maturity, and no loans are over 60 months. There is a small but steady trend away from loans over one year, in favor of very short-term loans.

Table 22: NPL Trends

MZN '000	2020	2021	2022	2023
0-30 days	2%	2%	4%	5%
31-90 days	6%	4%	4%	4%
91-365 days	52%	59%	58%	57%
1-5 years	40%	35%	34%	34%
>5 years	0%	0%	0%	0%

For the past two years, the largest loan exposure represented 2% of the total loan portfolio, but the tendency toward larger loans is trending upwards, as the top 10 jumped dropped from 12 to 11% in the same period. The largest is in real estate, while the others are in transport, agriculture and trade/commerce. None of the top 10 largest loans have any exposure to related parties. This is a reasonable risk concentration.

Futuro has no exposure to related parties. Hollard has enabled some levels of risk mitigation with credit life insurance offered to the individual clients.



NPLs have been trending negatively over the past 3.5 years. As can be seen in the aging analysis below, in 2020, during the first year of COVID, the NPLs are increasing and aging. As the NPLs are now spread between new delinquency (with 7% under 30 days) and loans which have been late for a longer period (9% over 30 days), the focus for management has been both on recovery and prevention.

Table 23: NPL Trends

NPL	<30 days	31-90 days	91-120 days	121-360 days	>360 days	Total	Total over 30 days
2023	7%	3%	1%	2%	2%	15%	9%
2022	7%	2%	1%	3%	2%	14%	8%
2021	7%	2%	0%	4%	0%	13%	6%
2020	7%	4%	0%	1%	0%	12%	5%

Ayani carried out a small study in June 2022, which found that NPLs over 90 days in the microfinance sector ranged from 5 to 25%, with an average of 15%. Futuro's current 5% over 90 demonstrates that despite its higher than recommended level of NPLs, it is performing relatively better than the market.

Investment loans have the lowest levels of risk, followed by individual working capital loans. Groups have the highest NPLs, most of which is over 90 days. This corresponds with Futuro's assessment that the MEs were most affected by the recent external shocks.

Table 24: NPLs by Type of Loan

2023	Non-performing loans	
	>30 days	>90 days
Group	14%	14%
Working Capital	10%	6%
Investment	2%	1%

Futuro's write offs in 2021 and 2022 were approximately 2% of the portfolio.¹⁵ As of August 2023, it had written off 0.36% of the portfolio. While the levels of write-offs are reasonable, especially given the challenging economic environment, it does indicate that NPLs are in fact trending upwards and not legacy arrears.

Management is reacting appropriately, taking important steps in terms of strengthening internal controls and credit analysis, strengthening monitoring and recoveries. Regular EXCOM oversight of NPLs is also important. This analysis could be deepened by looking at questions of NPLs by sector, maturity and even gender to help more closely identify the issues. A deeper NPL analysis, for example vintage analysis, could also help to determine at what point in the cycle loans all into arrears to permit focus on preventative measures, or even adjustments to terms of mitigate risk. As the new Head of Credit and Head of Risk are recruited into these roles, also as the new core banking software, which is easier to manipulate and produce reports, this analysis should be easier to conduct and use in decision-making.



There is limited publicly available data on other microfinance institution in Mozambique. Ayani carried out a small study using data from June 2022, which permits an assessment of Futuro against several microbanks and one non-bank lender. It must first be said that most microbanks are small and regional, thus they do not work in the same markets or directly compete with each other. The larger ones tend to serve a variety of different segments, and thus their actual MSME portfolio is often much smaller than the overall lending.

Table 25: Comparisons to other Microbanks in Size and NPLs

MZN '000 (Mid 2022)	Futuro	MB 1	MB 2	MFI 3	MB 4	MB 5	MB 6	MB 7
Assets	164,125	5,154,255	3,075,913	1,924,754	546,921	16,090	29,520	7,140
Portfolio	130,674	3,649,281	1,496,709	411,873	287,079	5,867	13,036	3,750
MSME Portfolio	130,674	129,074	42,062	411,873	58,311	2,547	22,094	7,518
MSME Clients	5,217	2,824	45	481	1,644	3	354	239
Ave Outstanding MSME Loan	25	46	935	856	35	849	62	31
NPL 90	7%	NA	25%	7%	5%	24%	14%	18%
NPL SME	7%	NA	81%	7%	8%	NA	14%	18%

Futuro's total loan portfolio is in middle, but there are no others similar in size. Its MSME portfolio, however, is more comparable to some of the larger microbanks, even though its average loan sizes were the smallest of all MFIs assessed.

Its overall NPLs are among the lower, and only one microbank had NPLs as low as Futuro in its SME portfolio.

2.4.4 INFORMATION SYSTEMS, AUDIT AND COMPLIANCE

There are four servers: Domain controller, Core banking software (LPF) database, Primavera server, Firewall server – external and internal - limits access to servers.

Internet is currently served by Vodacom, except for the Bank of Mozambique's Credit Reference Bureau (CRC), connection through Teledata. Futuro is considering other providers at the moment.

There are three back-up operations to ensure data recovery: i) a daily back up – copied onto two machines- two servers; ii) Weekly – on a disk, which stays with director; iii) Cloud data recovery – Cilix has servers based in Maputo and Matola, and does daily and weekly back-ups.

Futuro presently uses the following systems:

- LPF – credit management system
- Primavera – accounting system
- Kobotoolbox – cloud-based loan monitoring system.

Many processes (e.g. credit committee, HR, and all approval processes) remain manual due to limited integration among systems and the absence of workflow in LPF, as well as limited documentation management. Further, while LPF is integrated with Primavera, it is not integrated with Kobotoolbox (exporting data via Excel), the CRC of M-PESA.

The instability and slowness of LPF is one reason that management hesitates to invest too much in linkages. During the visit, on multiple occasions, the system timed out and data entry had to be reinitiated; one report took several hours to generate; and some documents (client identification) were lost and needed to be reloaded. The branch operation has created workarounds due to the slowness of the system. As such, Futuro has decided that prior to branch expansion and digitalization is requires a new system.

The Head of IT joined Futuro in December 2022, overseeing the 3-person IT department. He is leading the effort to review the current IT infrastructure and systems. He is testing connections and, most importantly, an alternative core banking software, *Kredits*, about which he is optimistic. As noted in 2.2.3, Futuro's management sees this as a temporary solution (3-5 years), and while it does plan for substantial support in digitalization in tis business plan, it has not included support in procurement of the most appropriate MIS.





Oversight of risk – in particular operational risk – is currently the responsibility of EXCOM. For the present size of Futuro, this is sufficient, but it requires some quick adjustments to keep up with its expansion plan, and in particular the new channels (branches and digital).

As previously noted, there is a plan to recruit a Head of Risk over the next year, but the function does not yet exist. There is an internal control function, which according to the policy manual plays the role of verifying that procedures are implemented per policy. Specific examples in the manual include confirming cash in the safe, ensuring loan files are complete, checking for duplicate loans. The policy manual does not call upon this function to be part of the process, but interviews reveal that Internal Controls reviews loan applications prior to submission to the Credit Department. There is no official compliance function, though a recent position was created to ensure one person is monitoring compliance with Bank of Mozambique reporting.

Futuro has one internal auditor. A review of the recent reports reveals that there were no internal audit reports submitted in 2023, reportedly due to some extenuating circumstances including a revision of procedures in the first quarter and a Bank of Mozambique supervision visit in 2023. At the time of the appraisal, a report was reported to be under development. There is no operational risk matrix and audits are not risk-based. There is no systematic tracker of findings and their resolutions. While the internal auditor in principle reports to the BOD, interviews revealed that in practice, he reports more directly to management, and has limited oversight from the audit committee. The Bank of Mozambique apparently identified this area as an area for improvement, though no report had been received from the visit.

The internal audit was able to detect an example of non-compliance with credit collections policies in handling of cash. Client officers are not permitted to receive cash from clients, but one client officer was taking cash payments from delinquent clients. No payments were found to be missing, and the officer was dismissed. No other incidents of internal fraud have been detected.

The 2022 external audit was carried out by Ernst and Young (EY). It followed appropriate standards, and adequately considered portfolio risk, risk related to foreign transactions, liquidity risk, and exposure to related parties. The audit was unqualified.

EY will not be the external audit for 2023. It has been selected to provide capacity building around internal controls. This capacity building will be important for many planned initiatives including: branch expansion, digitalization, establishment of risk function, establishment of risk matrix and strengthening of the internal audit function.



Futuro's risk management is composed of :

- *Credit risk* -NPLs remain high but within market benchmarks. Appropriate steps are being taken to address NPL trends. See Sections 2.4.2 and 2.4.3.
- *Financial (including foreign exchange risk) risk* – See Sections 2.3 and 2.5
- *Operational risk* – Processes are well documented and standardized around the key operational processes. LPF poses an efficiency challenge, and several work arounds have resulted both in high manual processes and some instances where key processes on completed (and verifiable through paper trail) on paper before they are recorded/approved in LPF. Capacity building planned to tighten. - See previous box on audit
- *Regulatory risk* – Recent BM supervision revealed that financial management was mostly in compliance. Internal audit was identified as an area for improvement. Regulatory changes are an on-going risk, which is monitored by Futuro's management and to some degree its BOD. See section 2.5
- *Market risk* – Futuro's market is highly risky. Many microfinance institutions have reduced or closed their operations in Nampula over the past decade. Over the past few years, risks have evolved from simply high costs/credit risk to also include security, high inflation, country risk which makes it difficult/expensive to borrow internationally, regular monetary policy adjustments designed to minimize currency fluctuation but having impacts on economic activity and inflation, as well as major natural disasters affecting some of the target expansion areas. Active monitoring of these risks is evident.

The business plan anticipates a new position for a Risk Manager (see Section 2.1.4.) Given the diversity of the institution's risks, this new position should be charged with the development and oversight of a comprehensive risk management system.

- It is advisable to also consider which insurance policies are available to mitigate some of these risks and the cost/benefit analysis. See Sections 2.2.2 and 2.2.3.

2.4.5 OPERATIONAL COSTS

Over the period 2017-2022, Futuro was unable to cover its operational costs with income. The technical support grant from SDC subsidized management costs. The table below shows that in 2021 and 2022, the operating costs as a percent of portfolio decreased from 73.3% to 53.7%. Futuro targets reducing this ratio sharply over the coming years, to reach 34.4% by 2025. As can be seen from the “Yield on portfolio less Opex Ratio”, the Futuro earned less on its portfolio than the relative cost of managing it. The gap, however, reduced substantially from 2021 to 2022, and is project to cover the costs in 2023, expending gradually.

Loans per client officer, which stood at around 213 in 2021, has since dropped to 146 in 2022 and further (by August 23 to 132.) Projections anticipate that it will rebuild slowly over time. This can in part be explained by the expansion plan, which requires the hiring of client officers to build portfolios in new areas. Each product has a different target for loans officers ranging from 60 (SME II) to 210 (ME) in 2023, eventually expanding to 80 (SMEII) to 250 (Group.).

2.4.5 Operational Costs



Table 27: Past and Projected Trends in Efficiency and Productivity

MZN '000	2021	2022	2023	2024	2025	2026	2027
Efficiency							
Opex Ratio - Operating expense / Average loan portfolio	73.3%	53.7%	40.7%	34.8%	34.4%	32.1%	29.8%
Net income / Average loan portfolio	-22%	-3%	3.7%	4.9%	9.1%	14.7%	18.2%
Income per client	9	13	15	17	18	18	18
Cost per client	15	15	11	11	11	9	9
Yield on portfolio less Opex Ratio	-28.3%	-7.6%	5.9%	23.2%	23.2%	28.7%	31.0%
Productivity							
Portfolio / client officer	5,233	4,634	5,677	6,480	6,678	6,893	7,114
Portfolio / staff member	1,767	2,227	2,523	2,965	3,106	3,391	3,640
Client officer/ total staff	34%	48%	44%	46%	47%	49%	51%
Loans per client officer	213	146	177	174	183	204	215
Loans per staff member	72	70	78	80	85	100	110



Futuro does not have a peer comparable in size (now or during the five-year projections) to help establish benchmarks, but the data below shows how it fares in terms of operational expenses compared to other microbanks and MFIs in the market. Its relatively higher costs to the larger Microbanks are driven by its size as well as its dedicated focus on MSMEs – as opposed to salary backed lending or other segments- which are less costly to serve. Its projections have it coming in line with the largest Microbanks by 2024.

Table 28: Comparisons to Microbanks in Efficiency

MZN '000 (Mid 2022)	Futuro	MB 1	MB 2	MFI 3	MB 4	MB 5	MB 6	MB 7
Assets	164,125	5,154,255	3,075,913	1,924,754	546,921	16,090	29,520	7,140
Portfolio	130,674	3,649,281	1,496,709	411,873	287,079	5,867	13,036	3,750
MSME Portfolio	130,674	129,074	42,062	411,873	58,311	2,547	22,094	7,518
MSME Clients	5,217	2,824	45	481	1,644	3	354	239
Ave Outstanding MSME Loan	25	46	935	856	35	849	62	31
Op cost as % of portfolio	77%	36%	32%	86%	53%	62%	60%	135%
Op cost as a % of Assets	55%	23%	14%	16%	29%	33%	25%	72%

Overall, the cost assumptions in the projections are not overly optimistic. They do show some gains in terms of cost per borrower, increasing the difference between yield on portfolio and operational costs as a percent of portfolio. Futuro could consider further reducing its costs as it expands with the following:

1. *Increasing productivity of client officers:* While there are not recent benchmarks for African MFIs,¹⁶ over a decade ago, Morgan Stanley established a rating for productivity in which the lowest of six grades was <130 borrowers per staff member¹⁷. Futuro's assumption remain below this level in the 5 year projections. The biggest driver is the client officer caseload, which could be reviewed.
2. *Reaping the benefits of the existing structure:* Futuro's branch structure is similar to a commercial bank, thus it has the needed structure to mobilize savings – different from non-lending(?) MFIs. This heavy cost structure can be mitigated by increasing savings mobilization, and thus reducing the cost of funds. There are some increases projected, but savings is not projected to be a significant source of funds for lending.
3. *Other operational efficiency:* As digitalization comes online, it is worth reviewing how it can help reduce other costs related to manual operations, for example increasing efficiency of back-office staff.

¹⁶ Most recent data available for a 2014 World Bank study.

¹⁷ [ms_microfinance_credit_methodology.pdf \(findevgateway.org\)](https://www.findevgateway.org/ms_microfinance_credit_methodology.pdf)

2.4.6 FINANCIAL PERFORMANCE

Since the equity injection by Hollard in 2020, Futuro's profit has been trending positively. By December 2022, it had covered 86% of its operational costs, and by June 2023, it was breaking even on a monthly basis. Futuro has struggled to achieve its business plan targets in the past. Prior to the Hollard investment, this was largely due to lack of capital, and since that time, due to external economic challenges, as well as some of the operational efficiencies indicated in 2.4.5¹⁸.

	18-Dec		19-Dec		20-Dec			21-Dec			22-Dec	
	Target	Actual	Target	Actual	Target	Rev Target	Actual	Target	Rev Target	Actual	Target	Actual
ROE	-8%	-59%	1%	-57%	9%	-22%	-63%	17%	23%	-26%	22%	-5%
ROA	9%	-53%	1%	-28%	6%	-15%	-31%	10%	14%	-14%	11%	-3%
OSS	78%	30%	103%	48%	116%	52%	40%	126%	93%	61%	114%	86%

Among the microbanks in the sector for which data was available, ROA was reported between 1 and 17%. **It is important to note**, however, that this information is not adjusted for subsidies, and as such is not easily comparable. During the same period, Futuro reported and ROE of 7%, including grant income.

2.4.6.1 Profitability



	Futuro	MB 1	MB 2	MFI 3	MB 4	MB 5	MB 6	MB 7
Assets	164,125	5,154,255	3,075,913	1,924,754	546,921	16,090	29,520	7,140
Portfolio	130,674	3,649,281	1,496,709	411,873	287,079	5,867	13,036	3,750
MSME Portfolio	130,674	129,074	42,062	411,873	58,311	2,547	22,094	7,518
MSME Clients	5,217	2,824	45	481	1,644	3	354	239
ROA	-3%	1%	4%	1%	2%	15%	5%	17%
ROE	86%	11%	14%	3%	3%	19%	16%	112%

Its projections bring it in line with others in the sector by 2025.

Table 31: Profit Projections

	2023	2024	2025	2026	2027
ROE	5%	5%	10%	17%	25%
ROA	3%	4%	8%	12%	16%
OSS	109%	113%	127%	146%	161%

Profit projections should be feasible, given the relatively conservative assumptions, even though it has fallen short of previous targets.

¹⁸ The figures presented were calculated by Ayani using financial statements. They refer to unadjusted assets and equity as presented in the published balance sheets for the year. They have been adjusted for the value of grants, as reported in the annual statements.



Sensitivity analysis¹⁹ shows that the sustainability of Futuro is most threatened by portfolio quality and competition. If portfolio quality worsens significantly in the coming years (resulting in the need double the provisioning) breakeven would be pushed back by at least two years, assuming all else remains equal. Similarly, if interest rates are reduced (due to competition or regulation), this has a direct impact on breakeven.

Inability to attract the planned funding is a high risk, but while it would reduce the growth, it would not by itself put the operational self-sufficiency at risk. Increased cost of funds would reduce profitability, but only starts to put it at risk if rates doubled from the projected levels

Other risks, such as increased reserve requirements and inflation have less impact on the financial projections.

Table 32: Impact of Risks on Business Plan Sustainability

Operational Self Sufficiency		2023	2024	2025	2026	2027
Business Plan Scenario		109%	113%	127%	146%	161%
Increased NPLs	Loan loss provision doubles	95%	97%	108%	119%	128%
	Loan loss provision triples	87%	88%	99%	108%	117%
	Loan loss provision increases to 25%	73%	74%	85%	93%	100%
Decreased Lending Rate	Lending rates decreased by 5%	95%	98%	107%	119%	130%
	Lending rates decreased by 10%	84%	86%	95%	107%	116%
	Lending rates decreased by 15%	73%	74%	83%	94%	103%
Increased Cost of Funding	Funding rates increased by a quarter	104%	105%	114%	126%	137%
	Funding rates increased by half	101%	102%	109%	121%	132%
	Funding rates doubled	95%	96%	101%	112%	122%
Increased Reserve Requirements	10% increase in reserve	107%	109%	118%	131%	142%
	15% increase in reserve	106%	109%	118%	131%	142%
	50% increase in reserves	106%	108%	117%	129%	141%
Inflation	Operational expenses increase by 3% /year	107%	108%	115%	126%	134%
	Operational expenses increase by 5% /year	107%	107%	113%	122%	129%
	Operational expenses increase by 7% /year	107%	106%	111%	118%	123%
	Operational expenses increase by 20% / year	107%	100%	98%	98%	94%
Reduction in Funding	Growth decreased by 10%	107%	109%	120%	134%	146%
	Growth decreased by 20%	107%	109%	117%	128%	138%
	Growth decreased by 50%	107%	109%	116%	126%	134%

Futuro's current increased focus on credit risk management is appropriate.

¹⁹ The financial projection model used in the business plan was not made available to the evaluation team. As such, sensitivity analysis was performed on the financial projections assuming adjustments to a single indicator.

2.5 CAPITAL ADEQUACY & REGULATORY FRAMEWORK

2.5.1 REGULATORY FRAMEWORK

The most important requirements with regards to microfinance regulations have to do with Services which a microbank can offer, capital and liquidity requirements, governance structure and committees, branch infrastructure and safety, tax obligations, reporting, insurance- including deposit insurance.

Futuro does not have regulatory compliance housed within a specific position. Compliance related to financial ratios, taxes, insurance and reporting to the Bank of Mozambique is handled by the Finance Department. Governance is the role of BOD, though the audit committee and risk committees needs to be strengthened for it to play this role fully. Both the Managing Director and BOD represents have direct contact with the Bank of Mozambique, and legal advice is sought as required.

The EXCOM looks at regulatory requirements and country-level benchmarks and compares its own performance on key ratios. The table below demonstrates the position as of August 2023.

Table 33: Futuro Performance Against Benchmarks in Regulatory Requirements

	Futuro (8/23)	Regulation (8/23)	Benchmark (12/22)
Capital			
Gearing Ratio	64%		13%
Capital adequacy	63%	>12%	27%
Tier 1 Capital	56%		28%
Asset quality			
NPL (90 days)	5%		9%
Risk coverage	171%		72%
Profitability			
Net financial margin	40%		68%
ROA	6%		3%
ROE	9%		28%
Liquidity			
Ratio of liquid assets	93%	>20%	51%
Transformation rate	609%		47%
Short term liquidity ratio	206%		70%

As noted in section 2.1.3, the first ever Bank of Mozambique inspection in June 2023, reportedly demonstrated satisfaction with financial management, though the form of calculating impairment needed to be adjusted. It further found a need to strengthen the internal audit function. Although the Supervisory Department did not avail itself for an interview, a conversation with the Deposit Guarantee Fund indicated the Futuro is well viewed and considered to stand apart from other microbanks in terms of capacity to report and response time.



2.5.1.2 Anticipated Changes



Recent BM supervision revealed that financial management was mostly in compliance. There was a need to make some adjustments to impairment calculations, but this had been corrected by the time of the assessment. Internal audit function and functioning of BOD committees are areas for improvement. Regulations change, which can have major impacts on the business of a microbank. For example, the reserve ratio increased from 10.5% to 39.0% in 2023. For an institution which relies on deposits for financing, this would seriously impact the business. Futuro is not presently or projected to be highly exposed to this risk. Other risks are potential increases in minimum capital requirements (which is unlikely for microbanks for the time being), unclear regulations and codes (such as withholding tax on hedging). Additionally, the regulator poses a risk in the length of time that it takes to improve shareholders, foreign lenders and BOD members, which could affect fundraising. The strategy to actively seek funding and to improve savings mobilization, and capacity building plan around this should help Futuro to sufficiently diversify its funding sources to mitigate some of the risks

2.5.2 ACCOUNTING STANDARDS

2.5.2 Accounting Standards




























Futuro uses the International Financial Reports Standards (IFRS), in compliance with Bank of Mozambique regulatory requirements. External audits confirm appropriate implementation.



2.6 SUMMARY

The institutional analysis looks at Futuro’s present status, its capacity to implement the business plan, and the extent to which challenges are identified and anticipated in the business plan and capacity building plan.

Table 34: Summary of Institutional Analysis

Ownership, Governance, Mgt 	Strategy and Market 	Funding, ALM, Liquidity 	Operations and Risk Mgt 	Capital Adequacy and Regulations 
Shareholding 	Market 	Funding 	Portfolio growth 	Regulatory Framework 
Directors 	Competition 	ALM 	Credit Mgt 	Accounting Standards 
Governance 	Internal Capacity 		Portfolio quality 	
Management 	Funding Strategy 		IT, Compliance, Audit 	
Staffing and Capacity Building 	Risks 		Financial Performance 	
	Financial Projections 			

The key risks to the successful implementation of the business plan include:

1. Key staff risk - anticipated departure of CEO in 2025.
2. Funding – while this is a priority area for management, funding is not fully identified for 2024 requirements or beyond.
3. IT - core banking software does not meet requirements. Change to a temporary system planned for implementation over the coming two quarters, immediately preceding branch roll out.
4. Many changes occurring at time of growth (HR, IT, revised operations, risk management)
5. Agriculture lending is not anticipating in future staffing plan.

3. CLIENT FEEDBACK

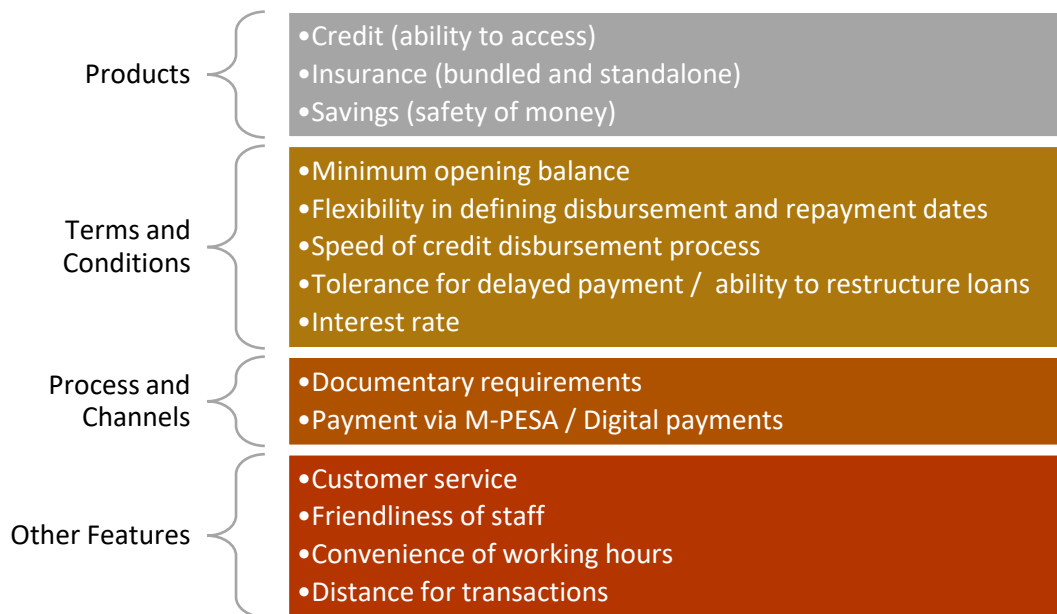
Six focus groups composed of 26 active clients and 23 former clients provided feedback on what types of financial services they need, use and how well Futuro Mcb's offering responds. Additionally, they provided insights in terms of changes in economic well-being and their levels of satisfaction with Futuro Mcb.

To the extent possible, the selected sample was largely representative of Futuro's client base. It is important to note, however, that the qualitative methodology, with a small number of participants (50) is not a statistically significant sample, and as such the results should be treated as indicative.

3.1 WHAT THE TARGET MARKET NEEDS

Focus groups identified a number of considerations important to Futuro's target market when choosing to use financial services. These can broadly be categorized as follows:

Figure 5: Products and Product Features Considered Important to the Target Market



Each focus group had the opportunity to rank those features in terms of order of importance. The adjacent figure indicates that staff friendliness was cited by two groups as the most important consideration. Other groups indicated being able to access credit, ability to pay through digital channels, customer service and the ability to access insurance as the most important feature that they consider when selecting a provider.

Figure 6: Most Important Product Feature

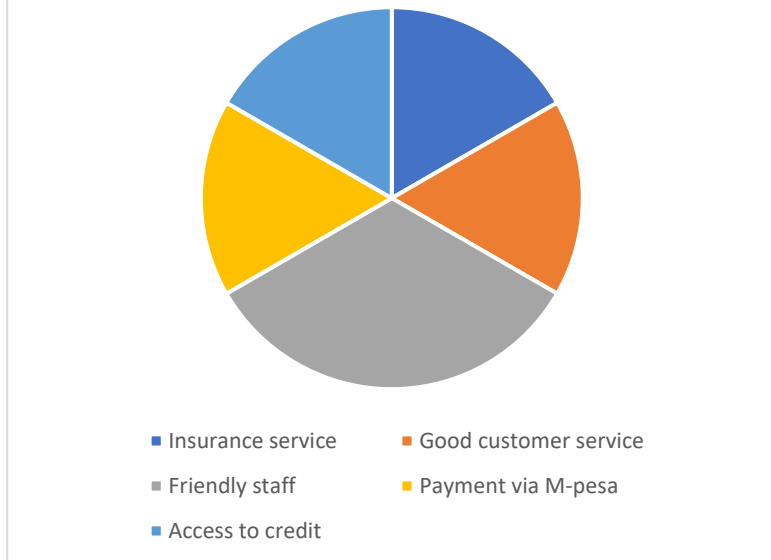
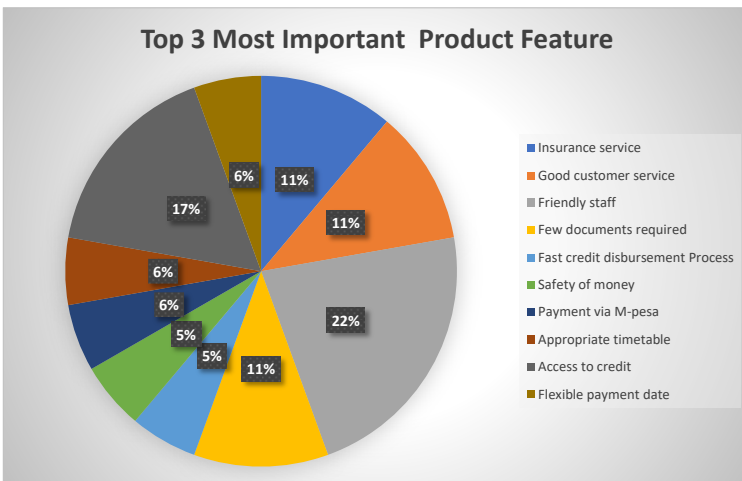
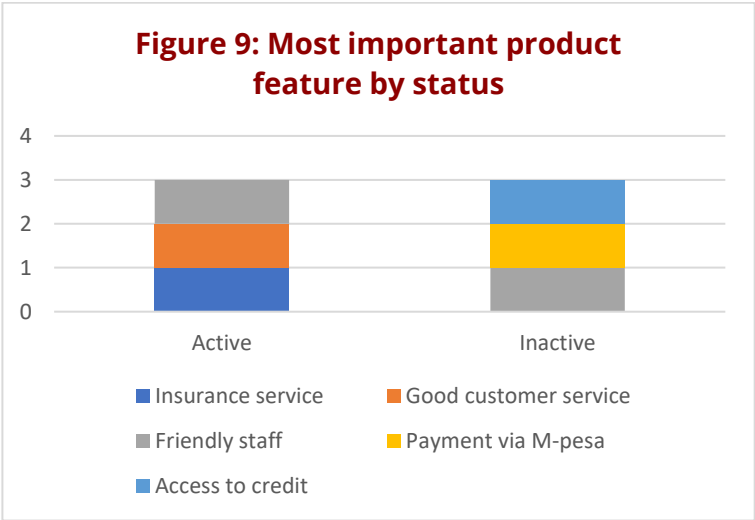
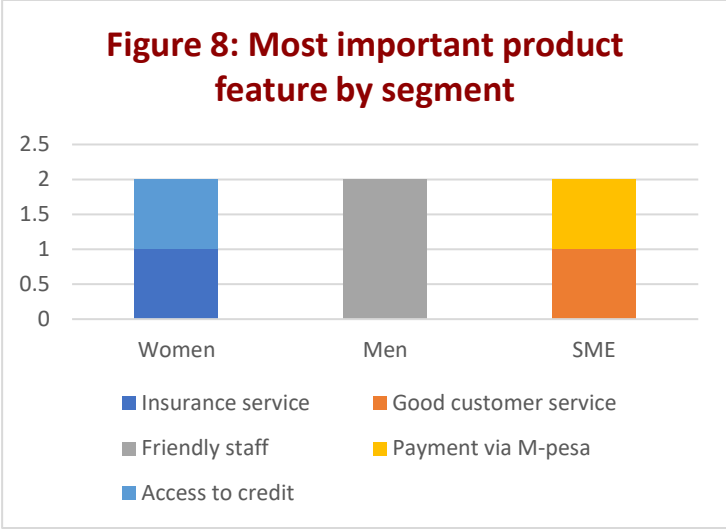


Figure 7: Most Important Product Features



In looked at those features which were prioritized in the top 3 for the different focus groups, friendly staff continued to the most frequently cited, followed by digital payment option and then areas which focus on efficient/facilitation of services: good customer service, simplified documentation. Access to insurance was also frequently cited.

Women MEs prioritized access. They indicated that there are no other formal services which offer them credit or insurance. Men MEs prioritized friendly service. SMEs focused on the importance of “customer service,” in particular ensuring that the applicant understands all terms and conditions prior to approval, as well as the facility of payment via M-PESA.

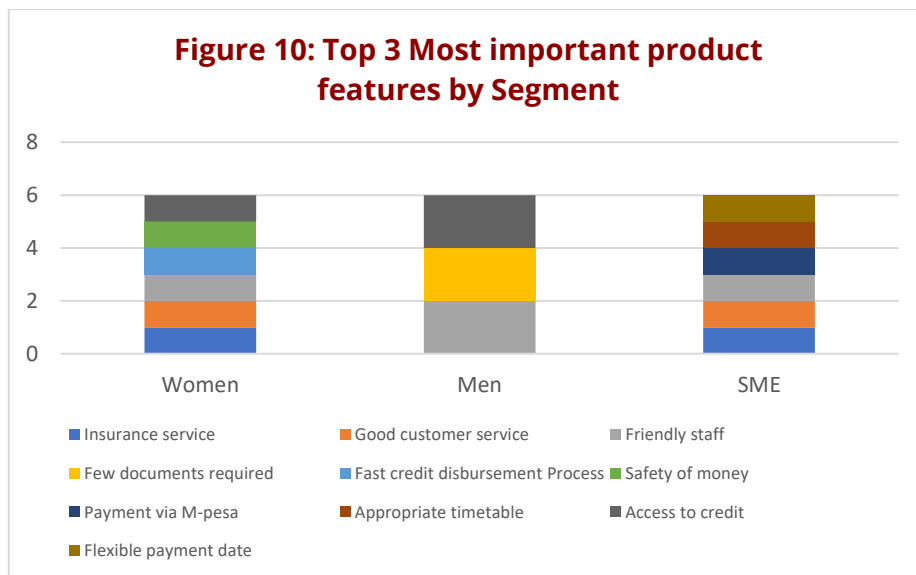


While friendly staff was indicated by both active and former clients, the active clients focused more on questions of customer service and insurance.

Former clients highlighted access to credit and payment via M-PESA as key considerations in selecting a service provider.

The segments differ in terms of their priorities in using financial services

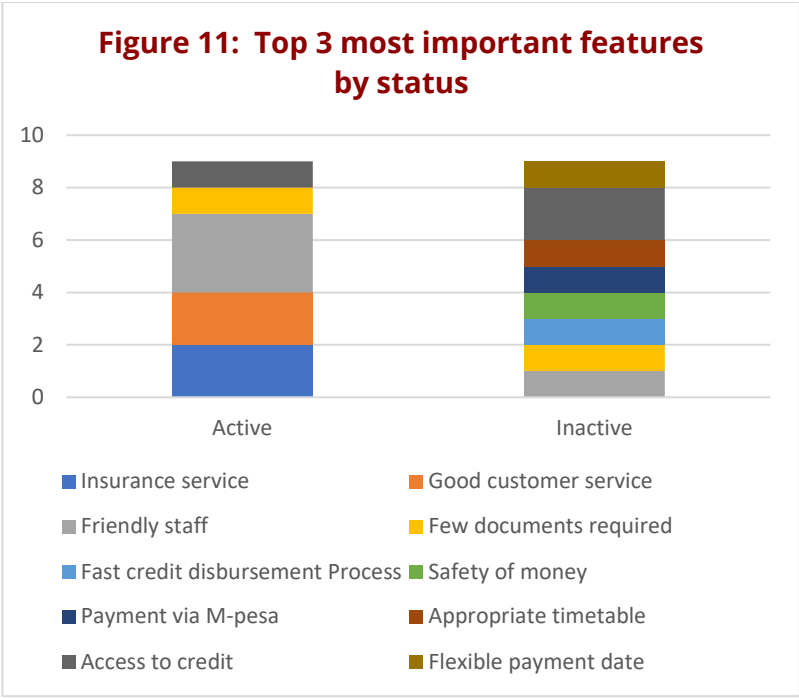
Once again, women MEs show a strong prioritization for questions of access, highlighting “access to credit”, “access to insurance” and having a safe place to keep their money.



The importance of this is that institutions such as banks, which may be able to offer savings and transactions, do not regularly offer credit and insurance to this segment. The ability to access different types of financial services is important to them.

Men ME’s responses primarily focused on credit. They prioritize access as well as simplified documentation and friendly service.

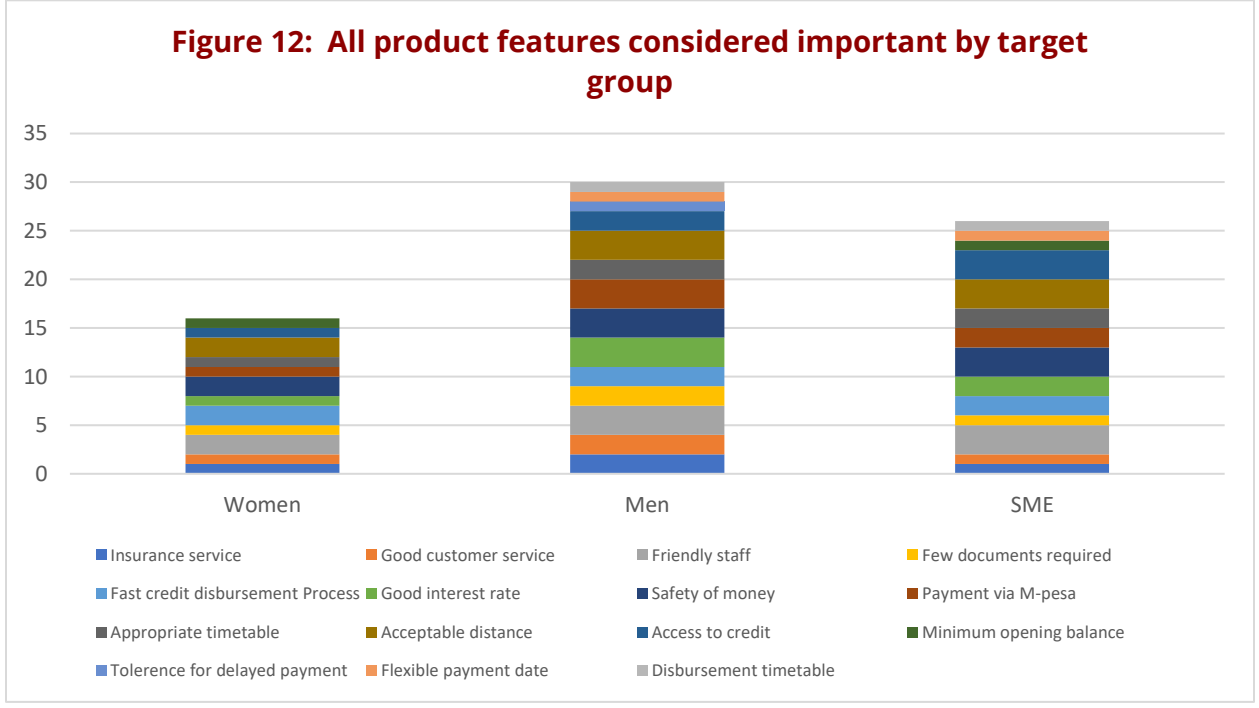
SMEs focused on how simple or difficult the service is to use. They highlighted considerations such as payments via M-PESA, hours of operation of the branch, flexibility in establishing repayment dates. They also highlighted the financial institution’s willingness to restructure in case of real problems in the business as an important consideration, highlighting that doing business in their environment is unpredictable. Further SMEs focused on clarity in the terms and conditions at the time application and friendly staff. SMEs also indicated that access to insurance to cover their debt in case of death is important to them.



Active clients more frequently prioritized questions of interactions with the financial service provider such as friendly staff, customer service, simplified documents, as well as to some degree access (to credit and insurance).

Former clients also prioritized access (to credit and savings), but focused on questions of timing/quick access such as transactions via M-PESA, office hours, how long disbursement take and payment schedule.

Men typically had a longer list of considerations than women. It is important to note that while “good interest rate” was indicated as a consideration in 5 of the 6 focus groups, it ranged from 5th (out of 9 considerations) to 11th (out of 11 considerations) in terms of priority.



3.2 HOW RESPONSIVE IS FUTURO?

For all of its market segments, Futuro offers a bundled service, which includes a savings accounts, loan and insurance. There is general appreciation by the target market for the offering of these different services. Clients do appreciate the value of each of the three services distinctly. While credit and insurance were most frequently cited as the services which could only be accessed at Futuro Mcb, several of the ME groups also indicated that they have never used savings services from any other bank, though many do have mobile wallets.

All MEs and active SMEs generally agree that Futuro’s product and product features meet their needs.

Table 35: Feedback on responsiveness of Futuro’s Products	
Products	<ul style="list-style-type: none"> • <i>Credit</i>- almost all groups indicated that it very difficult to get credit from any other source. “Futuro Mcb offers small business owners financial backing that fosters innovation and economic growth by enabling them to initiate or expand their business ventures.” • <i>Savings</i> – participants indicated the importance of having a safe place to keep their money, and confidence that Futuro offers this. There is also an indication that the savings product promotes a long-term relationship with the client. • <i>Insurance</i> – insurance was only mentioned by women MEs and SMEs. Women referred to the “peace of mind” that it provides with regards to credit. This sentiment was similar that that reflected by SMEs, but they also went further to talk about “securing investments and belongings.”
Terms and conditions	<ul style="list-style-type: none"> • <i>Minimum opening balance</i> - This question was raised only by women MEs, who appreciate Futuro’s low minimum opening balance (which they indicated was 100 MZN, of which 50 MZN was used for service fees. • <i>Flexibility in defining disbursement and repayment dates</i> – both groups of SMEs indicated that clients can choose payment dates that suit their financial cycle, thereby reducing the pressure and potential financial strain associated with fixed payment dates. They appreciated Futuro’s ability to accommodate their business cycles. • <i>Speed of credit disbursement process</i> – All ME groups indicated their appreciation for the relatively quick processing time. Some indicated that it shows a respect for their time. • <i>Tolerance for delayed payment / ability to restructure loans</i> – this question was only raised in one group, which appreciated Futuro’s ability to work with a client when they are having problems repaying. They indicated regular contact with the bank to assist them in planning for repayments. • <i>Interest rate</i> – All ME’s view Futuro’s interest rate as competitive. They are primarily comparing it to the interest rates charged by savings groups (often 10% per month) and moneylenders. They did not appear to know the

Table 35: Feedback on responsiveness of Futuro's Products

	<p>interest rate (though it is clearly highlighted on the loan contracts), but did not feel that it was difficult to make payments. Active SMEs reflected this view. SMEs who had left, however, did indicate that they struggled to make payments "One ends up working for the bank." Several members of this group are also public sector employees who do have access to salary-backed loans from banks at lower interest rates, but the amounts are limited for their business needs.</p>
Processes and channels	<ul style="list-style-type: none"> • <i>Documentary requirements:</i> This issue was raised only by MEs, who appreciate that Futuro has made efforts to simplify and reduce documentary requirements. "The bank requires only three documents, ID, NUIT, and Declaration of Residency. One can get all them in one day." • <i>Payment via M-PESA / Digital payments:</i> All groups highlighted the linkage to M-PESA as a great advantage. They speak about speed, ease of access, security and reduced time. SMEs go further in recommended greater levels of digitization, in particular for loan disbursements and to access other services (savings, insurance.)
Other Features	<ul style="list-style-type: none"> • <i>Customer service:</i> This question was raised by three groups (women and SMEs). Active clients felt that customer service was very good "Futuro MCB Ensures that customers receive assistance promptly and professionally. They address customers' needs and concerns efficiently." Former SME clients highlighted areas that they felt could be improved: ensuring that all terms and conditions are clear at the outset (e.g. several did not understand that they needed to make a cash deposit as a credit guarantee in order to access the loan and were not prepared for it). Another issue that was raised is frequent, unannounced visits at their business, which they say draws attention to the fact that they have borrowed money to their clients and peers. They would prefer more discretion. • <i>Friendliness of staff:</i> All groups noted that Futuro staff are "warm", "welcoming", "approachable", "responsive." They feel like the staff respect them and are not giving preference to wealthier clients (as is the reputation of other banks.) Several groups have indicated that this friendliness is critical to creating customer loyalty. • <i>Convenience of working hours:</i> All groups noted that Futuro's branch operating hours are convenient, and one group noted that they are punctual. "Futuro has sensible and well-structured schedule that caters to the convenience of the clients. They are open during business hours. That ensures services are available at times suitable for the majority, hence facilitating smoother transactions." • <i>Distance for transactions:</i> All groups highlighted the importance of the branch location. None felt that it was inconvenient, and several noted that the fact that it is in the community, and not the center of the city makes it easy to access and transport is affordable.

For the most part, the participants provided extremely positive feedback on Futuro's products, the terms and conditions that are most important to them and the way the Futuro interacts with them. It is clear that for MEs – both men and women – Futuro's services fill an important gap in the market, as they are unable to access them from other service providers.

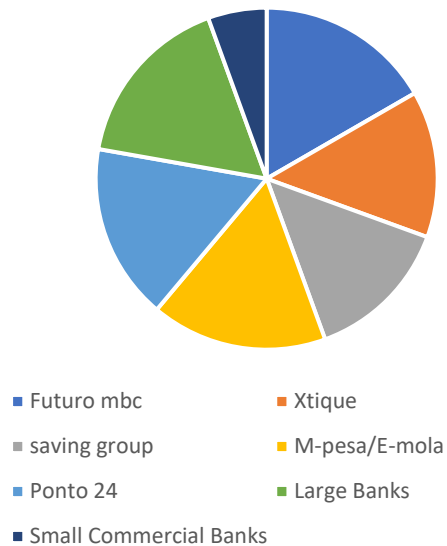
For SMEs, they also appreciate the access to services which Futuro offers, but former clients point to three aspects that Futuro might need to consider/ understand a little better as it seeks to expand in the SME market, namely:

- *Interest rates* – some of the larger clients, with relatively more fixed costs, appear to have trouble making payments. They refer to interest rates as the challenge, and seem to be happy with the other terms and conditions. Futuro should take a look at whether profit margins become smaller for their larger clients and how best to adjust the product to ensure that payments are not a stress on their businesses.
- *Sharing of terms and conditions* – Futuro might consider reviewing what information its client officers present to applicants and how clear the terms and conditions are. If several SME participants indicated that they were not aware that the loan guarantee needed to be deposited in cash prior to disbursement day, and that this created some stress, it may indicate a need to provide client officers with a simple checklist of information that needs to be presented to and discussed with applicants in order to avoid surprises when the loan is approved.
- *Loan monitoring*- It is generally considered good practice in microfinance and SME lending for client officers to regularly monitor businesses on site. Futuro implements this practice, though some of the SMEs were surprised by it and felt uncomfortable. This may in part go to communicating with applicants, so they understand that this is Futuro's practice, but it may also require a bit more market research to identify ways to adapt in order to afford more discretion to their SME clients.

3.3 WHAT FINANCIAL SERVICES FUTURO'S CLIENTS USE

Futuro Mcb offers a unique service to its target market. MEs in particular indicated that they have little to no experience with other formal financial institutions, while SMEs do have experience with banks, they often lack access to credit for their businesses.

Figure 13: Known Financial Service Providers and Frequency with which they were cited



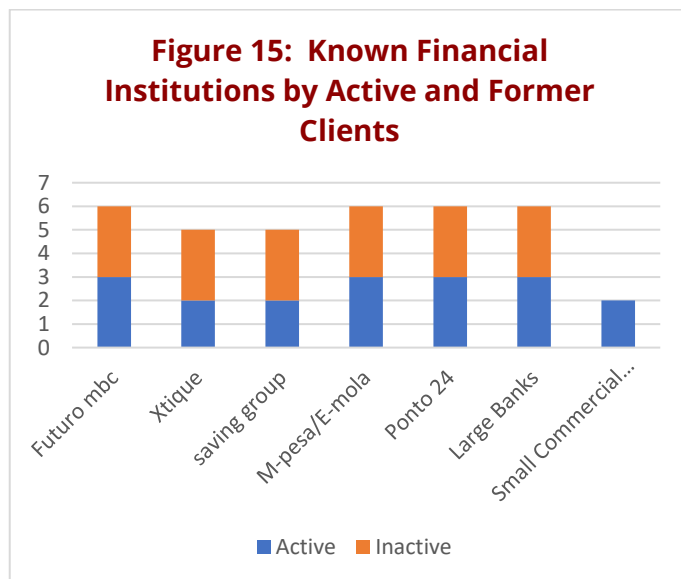
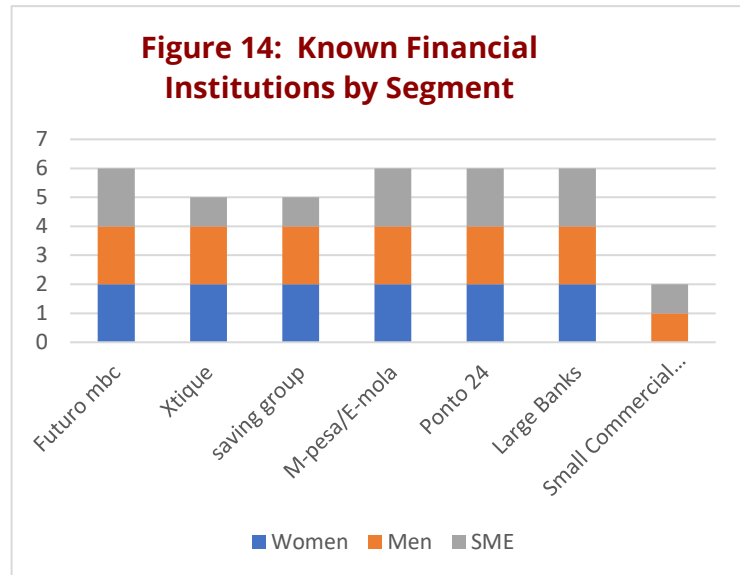
Futuro Mcb's clients are aware of a variety of different service providers in the market. In terms of formal financial services, in addition to Futuro Mcb, they are also familiar with mobile money operations (M-PESA and eMola), large commercial banks (BCI, BIM) and a few know of some of the smaller commercial banks (Ecobank and former Banco Terra). Most are also familiar with the digital payment service, Ponto 24, which permits off-site access to bank account services.

Equally as frequently, informal services such as savings groups and the more traditional "xitiques", which are rotating savings groups in which each week or month, everyone contributes an agreed amount and one member takes it home.

It is interesting to note that other microfinance providers (such as SOCREMO, MyBucks, AfricaWorks) were mentioned sometimes in discussion, but not cited as relevant financial service providers in the participants' communities.

MEs (women and men) cited the same institutions with the same level of frequency, though one group of men MEs referred to the former Banco Terra, though noting that accessing credit was not easy²⁰.

SMEs were less likely to cite informal services (savings groups and xitiques), but did also refer to a smaller bank, Ecobank, used to affect foreign transactions.



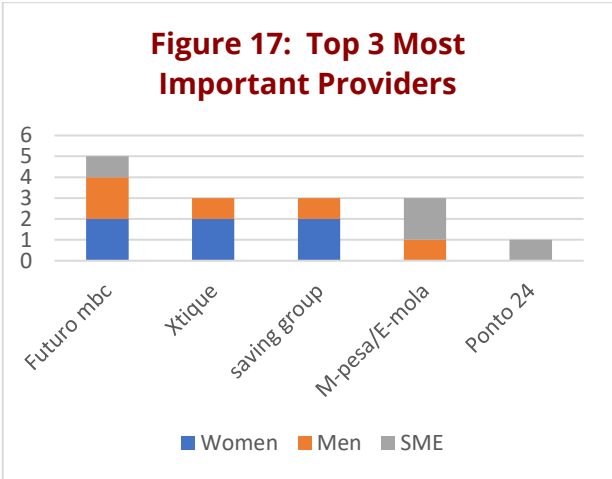
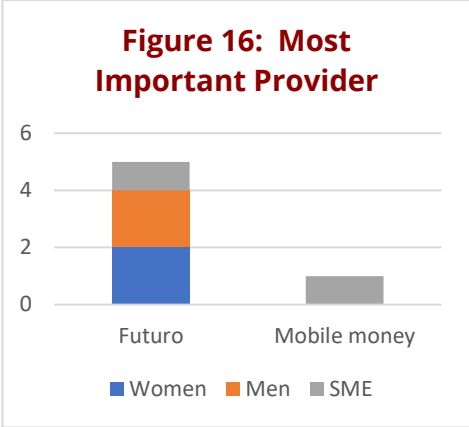
Inactive clients were more likely to cite informal service providers than active clients. One of the recommendations that emerged from these groups is that Futuro consider creating savings products for these groups.

Active clients are more likely to be familiar to smaller banks, but all are aware of the large banks, specifically BCI and BIM, which are the two largest with the greatest branch outreach.

²⁰ Banco Terra has since merged with Moza Banco.

While they are aware of many different providers, when asked which providers are most important to them, all MEs, and some SMEs indicated that Futuro was the most important.

The former SME clients indicated mobile money operators are the most important service providers for their business. Several of them are agents of mobile money operators.



In looking at the top 3 most important financial service providers to the different groups, again it is evident that MEs prioritize Futuro, informal services and to a lesser degree mobile money.

SME's however focus more on digital (mobile money and payment services) in addition to Futuro.

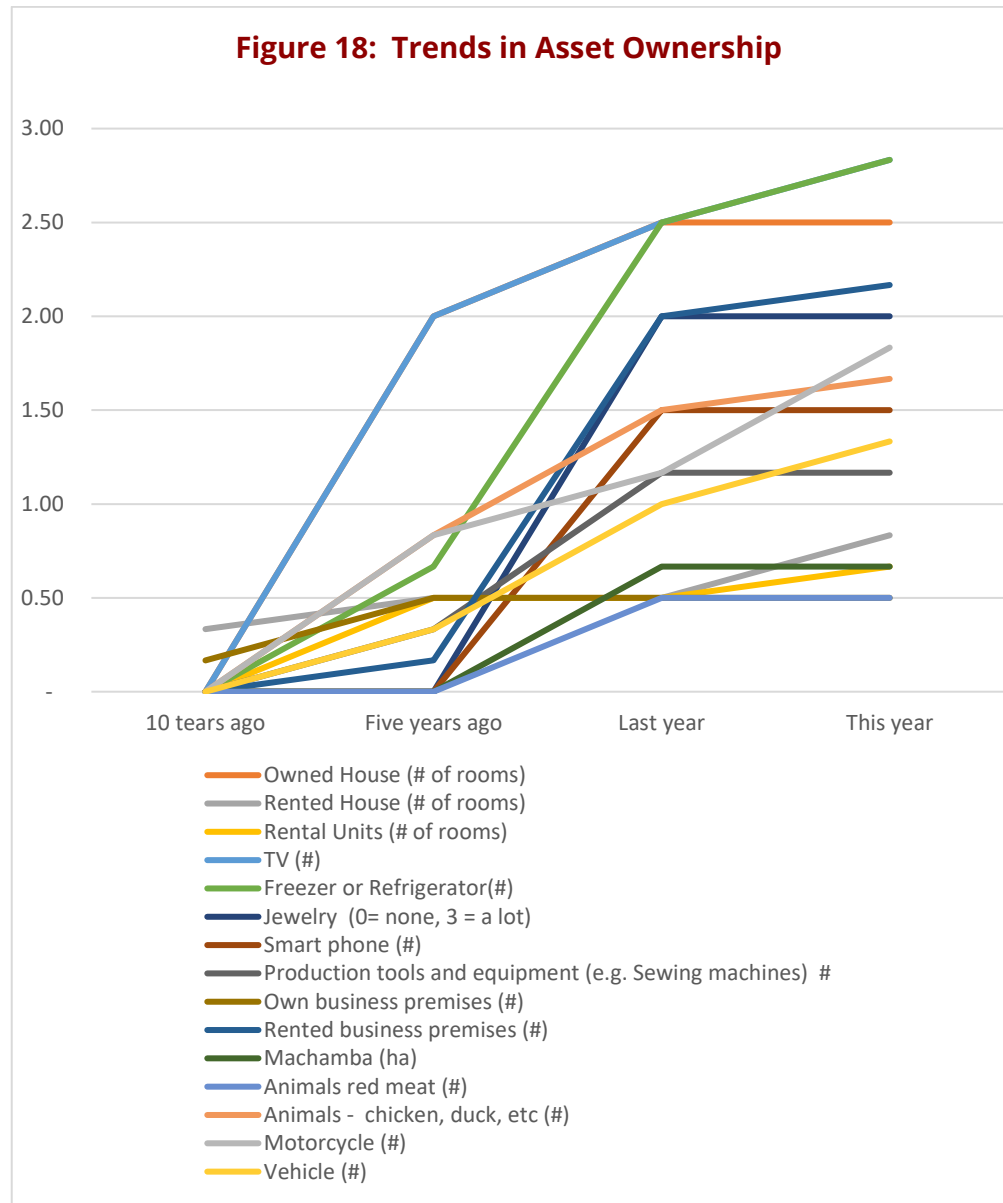
It is evident that there are opportunities for Futuro to continue to collaborate with MMOs, and potentially explore other Fintechs, as well as design products and services which permit it to bank the informal savings groups and xitiques. At this time, it has little to no felt competition in its credit and insurance. In terms of savings, mobile money is increasingly viewed as a place to save money, though still largely used for transactions, especially by SMEs, due to balance and transaction limits.

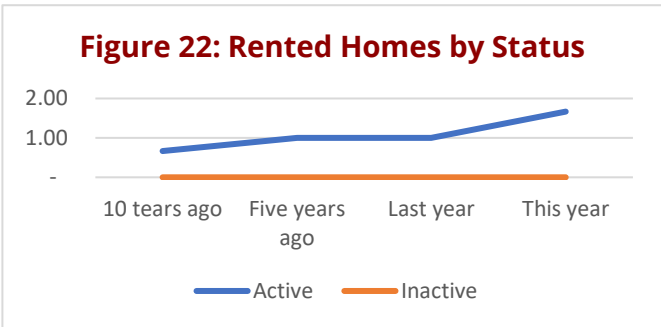
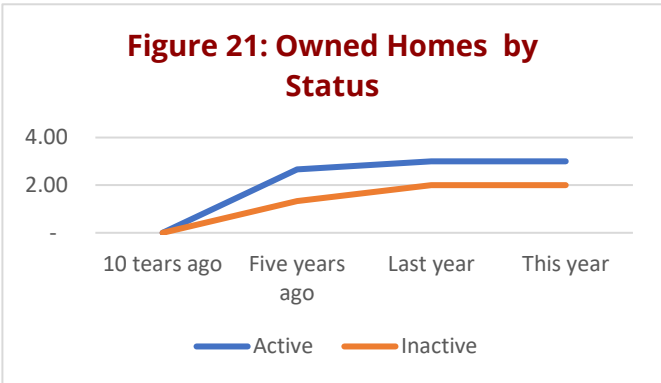
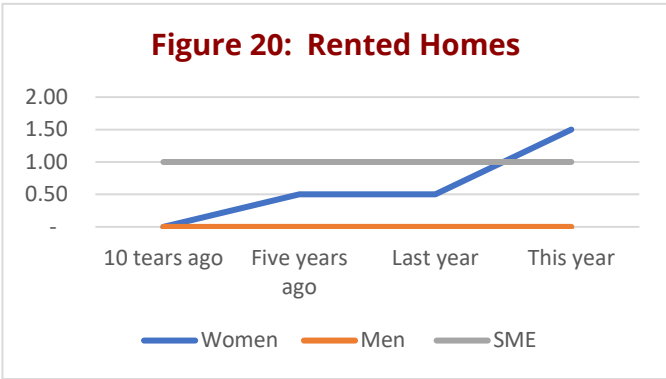
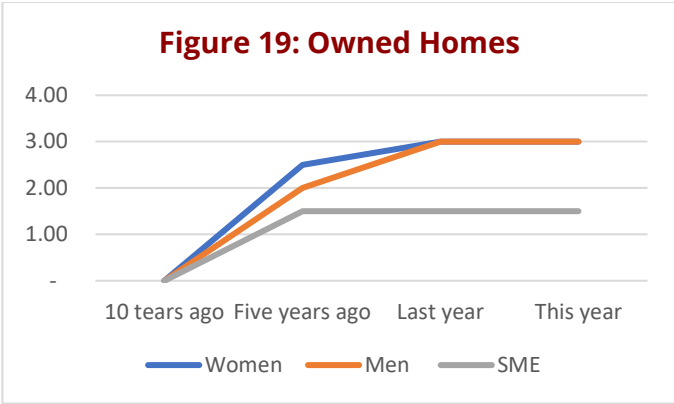
3.4 TRENDS IN FINANCIAL WELLBEING OF FUTURO'S CLIENTS

While it is not possible to allocate a causal relationship between Futuro's financial services and client's financial well-being, well designed services tend to be aligned with increase in assets and capacity to pay for common household expenses. By contrast, poorly designed services – in particular loans – have the potential to result in negative trends in assets, especially if clients become overindebted and lose their collateral due to default.

Both active and former clients report a substantial growth in both household and business assets over the past 10 years.

The adjacent figure demonstrates trends in ownership on a scale of 0 (implying not owning an asset) to 3 (implying owning at least three assets or houses with three bedrooms.)





Focus groups were asked to discuss the typical household among their participants, to determine the size of the home and whether they owned or rented.

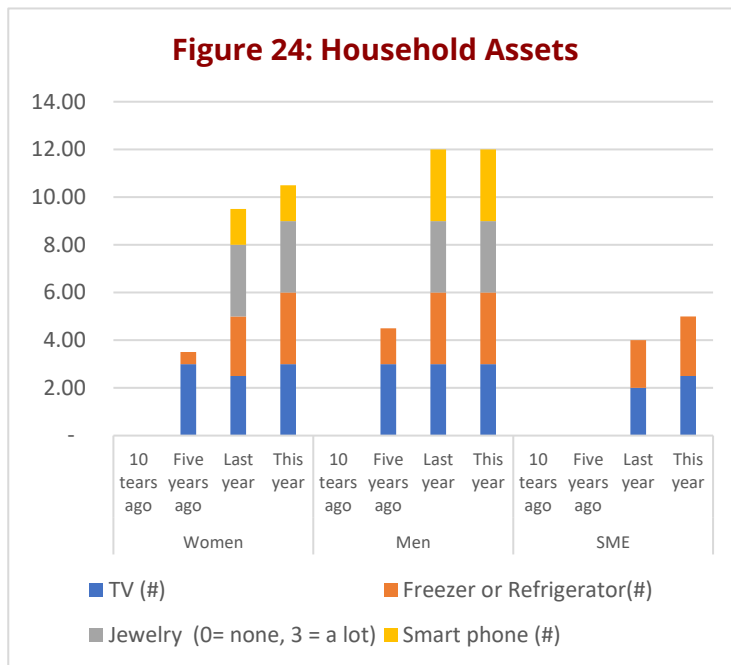
Women ME groups were divided in terms of owned and rented homes, but all groups demonstrated a steady increase in the size of the home (from 1 to 3 or more bedrooms) over the past five years. All male participants owned their homes and indicated similar trends to the women homeowners, though starting from a relatively smaller size (average 2 bedrooms as opposed to 2.5.)

SMEs tended to be more conservative in their reporting on home ownership and rentals, reporting small houses and no major changes over the past five years. This finding is not easy to interpret and may warrant further exploration.

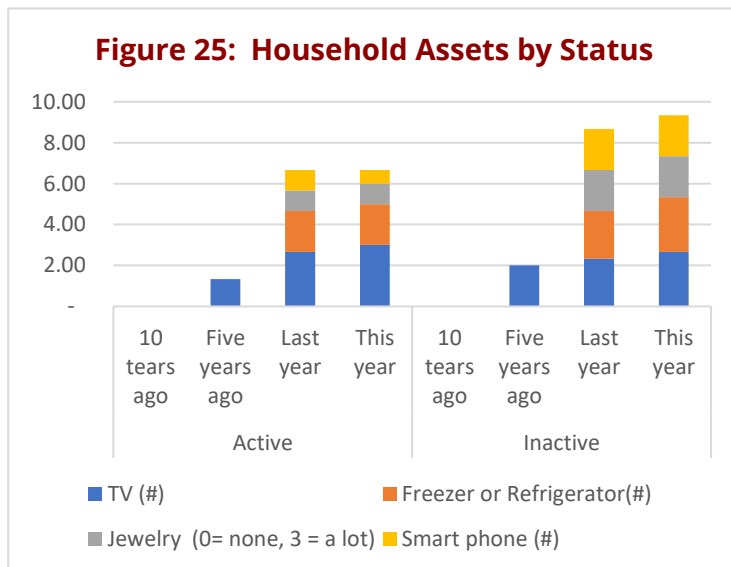
Active clients reported relatively larger owned houses than inactive clients. Rental houses tended to be smaller. Only active clients rented houses.

There were no negative trends in housing size or ownership during the period for any of the participants.

Similar to the discussions on housing, focus group participants indicated upward trends in ownership of household assets. Specifically, they discussed televisions, smartphones, freezers, refrigerators and jewelry. All segments (women, men and SMEs indicated upward trends. Men indicated slightly more assets than women, though they also started at a slightly higher level. Once again, SMEs were conservative in their reporting assets, but nonetheless indicated upward movement.

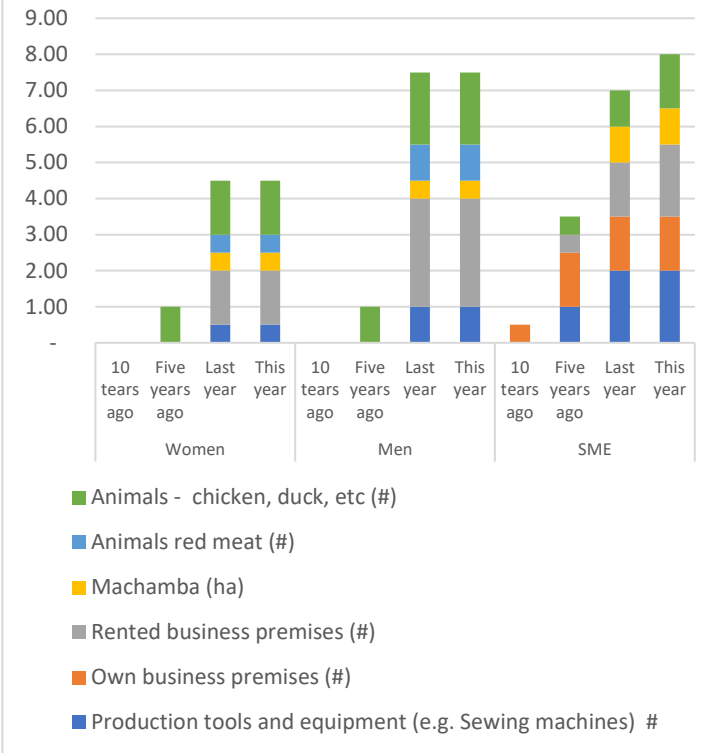


Former clients reported higher levels of household assets and more rapid increase than active clients over the past two years. The ME former clients groups indicated that they are no longer borrowing because they have achieved their goals for now, and do not need loans. This may to some degree explain this difference.



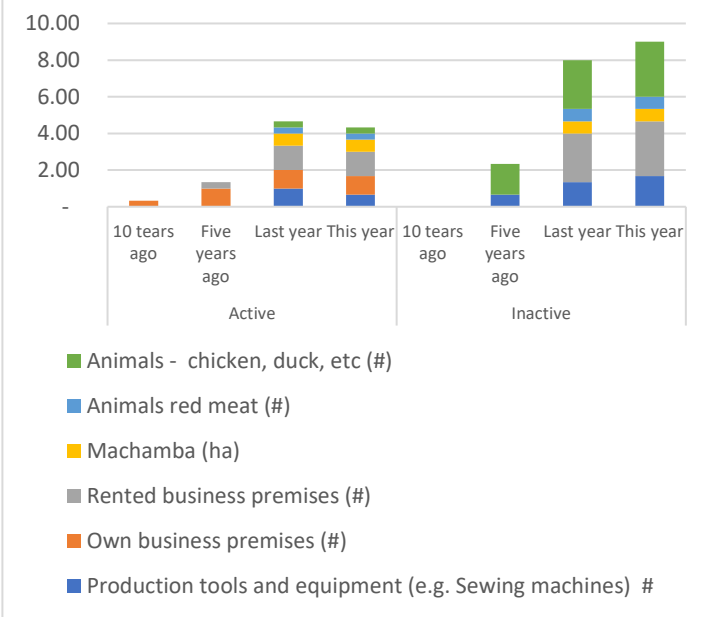
For MEs change has been the addition of new forms of assets: smart phones and jewelry in addition to televisions and kitchen appliances.

Figure 26: Productive Assets



Productive assets also show growth in all segments, but the difference is more striking between men and women MEs. Men and women report similar assets five years ago (in the form of poultry), and have since seen the renting of business premises, diversification into red meat production and some acquisition of productive tools and equipment. The greatest difference is related to rented business premises - where women typically have one, but men indicate three and relatively higher growth by men in the other assets.

Figure 27: Productive Assets by Status



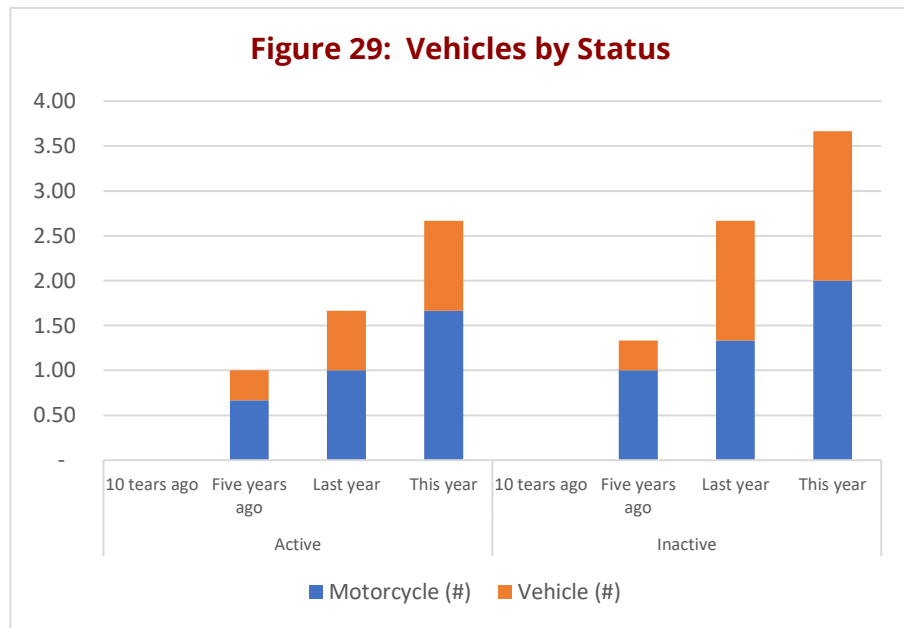
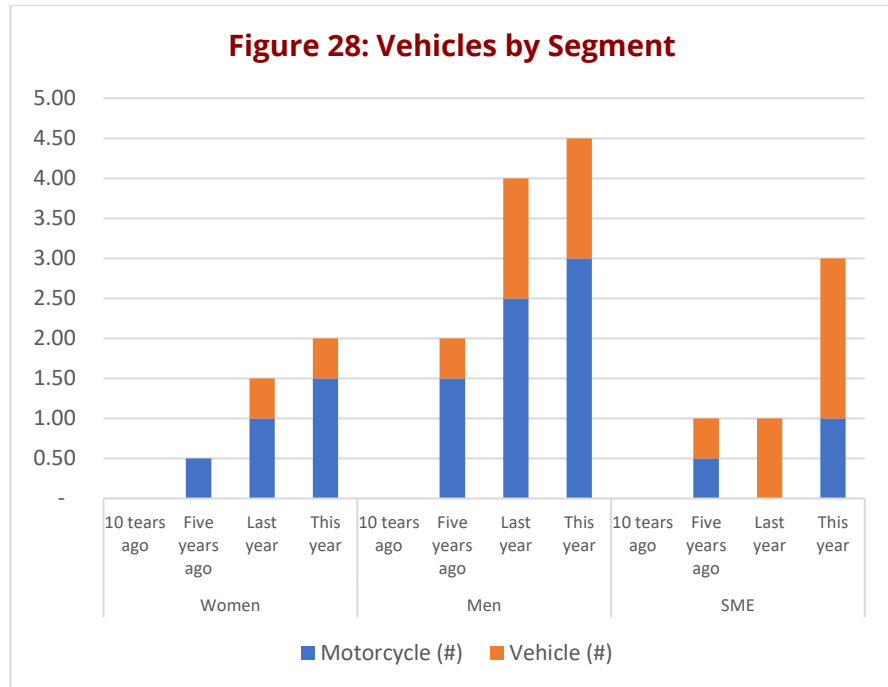
SMEs show growth in business premises (both owned and rented) as well as productive assets and agricultural land.

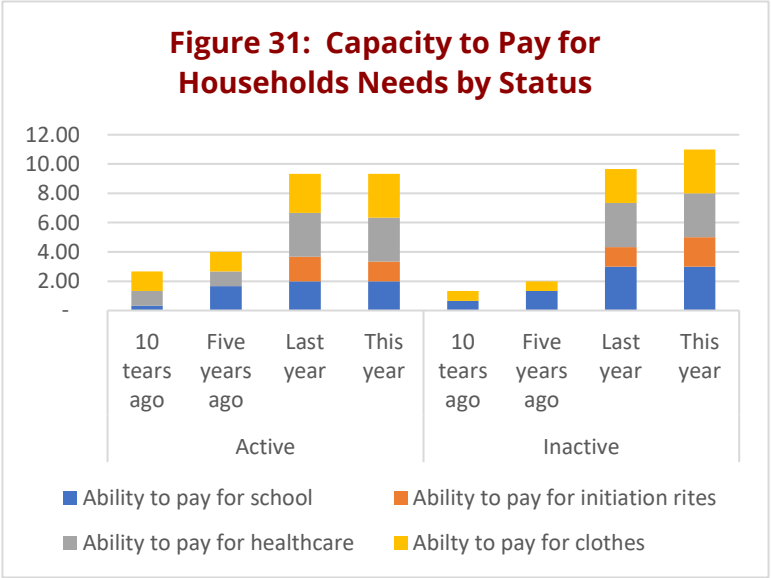
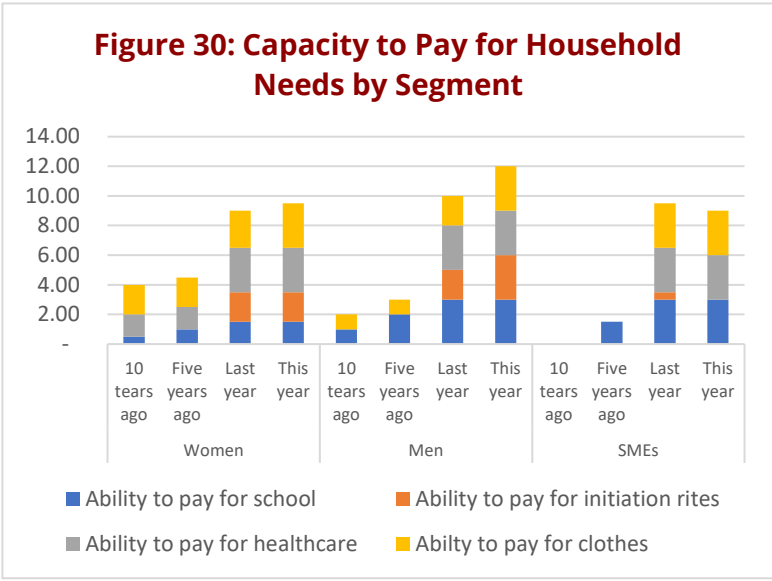
Former clients report higher levels of growth than current clients, but it should be noted that the SMEs which reporting owning their premises are all active clients.

In terms of vehicles, cars and motorcycles are also seeing growth, primarily in motorcycles while men show higher growth in both motorcycles and cars.

SMEs are more likely to own cars, but it is not very frequent.

There is almost no difference between active and former clients with regards to vehicles.





In addition to assets, participants discussed their ability to pay for common household expenses including healthcare, clothing, school fees and initiation rites (which are traditional ceremonies and celebrations.)

Once again, all segments indicated a substantial improvement in their ability to pay for such expenses (although SMEs often reported not engaging in initiation rites, so that expense was not discussed in depth.)

Looking at five years prior, no one reported the ability to pay for the initiation ceremonies. Men MEs also did not report the capacity to meet the cost of schooling, this has improved across the board. Participants report have less stress in household expenses.

There is no major difference between former and current clients.

The economic wellbeing of clients, measured in terms of housing, household assets, product assets, vehicles and capacity to pay for household expenses, is trending upward in all groups. While it is not possible to demonstrate a causal relationship between the access to services from Futuro and these changes, all ME clients and active SME clients do attribute some of the positive change to their accessing Futuro’s services. As presented in the table below

Table 36: Assessment of Participants as to the Extent to which Futuro’s Services Impact their Economic Growth.

Active women ME clients	This group credits all of their growth in households and business assets to their relationship with Futuro. They said that prior to Futuro, they were not able to purchase anything and completely dependent on their husbands.
Former women ME clients	Some of the participants in this group started over five years ago. They have indicated that their businesses have grown from a capital of less than 2,000 MZN to over 20,000 MZN today. Now they are able to help their husbands with household finances. Some members are widows, who did not have to lower their standing of living when their spouses passed.
Active men ME clients	Asset growth is largely due to their ability to borrow from Futuro. They have been able to be more serious about their businesses.
Former men ME clients	Some of the participants in this group started over five years ago. They have indicated that their businesses have grown from a capital of less than 10,000 MZN to over 50,000 MZN today.
Active SME clients	Futuro has empowered this group and allowed them to grow their business. Several are building their own homes and business premises, and also rental units.
Former SME clients	This group was divided. One client who had been with Futuro for several years felt that her business growth was directly related to the loan from Futuro. Several of the others indicate that any business growth is unrelated to services that they received from Futuro. A few indicated that interest rates made it difficult to benefit from Futuro’s loans in any real way.

3.5 SATISFACTION

Of the six focus groups, five expressed very high levels of satisfaction.

Futuro Mcb offers something unique in the market, to which they have no alternatives. Despite this almost monopolistic position, they feel that Futuro offers good services, with terms and conditions which are flexible enough to respond to their business needs. From conversations, it is clear that they have a respectful relationship with their client officer and feel comfortable to can contact them when they are having business problems to help find solutions. The general message emerging from these groups is that Futuro knows its market, is located where its clients live and work and is responsive to their needs.

Importantly, all clients were familiar with the insurance and savings services bundled with their loans and see value in it. They offer some recommendations as to how Futuro can deepen these services, namely through increasing digital access, diversifying digital partnership (e.g. to include eMola, which is viewed to be less expensive than the present partner, M-PESA), and developing products which can be offered to informal savings groups.

These five groups largely credit the services which they have accessed from Futuro as key components in the growth of their business and the relative wealth and economic stability that they now face.

The one divergent group was composed of former SME clients. The group was split on several issues but did reveal some important considerations for Futuro. The SME clients wish for greater levels of discretion from the bank during monitoring visits. Somewhat related to this, they do not like the requirement to have guarantors, as several indicated that they do not have people able to guarantee their loans whom they trust with this financial information. Several of them have faced repayment difficulties and blamed the high interest rates for this problem. They also indicated that they felt pressured to meet their repayment obligations, which again is likely an area for deeper research, as the practices described are aligned with the institutional policies and good practices in loan recoveries. Finally, this group felt that Futuro needs to catch up with other banks with regards to digitalization of their services. They do not feel that they should have to receive disbursements in cash or checks and should be able to access their savings accounts without going to the branch.

4. FINDINGS

The findings result from an analysis of the performance of the SDC technical support in line with the OECD/DAC Criteria. Much of the analysis is drawn from the institutional assessment (which looks at the effectiveness, efficiency and sustainability,) as well as the client feedback (which informs relevance and impact). The findings from Section 2 and 3 are referenced in this analysis, but not repeated.

4.1 RELEVANCE

Are we doing the right things?

Futuro offers a unique service in its market segments both in its current geographic area as well as in its target expansion areas. Its work is clearly aligned with the National Strategy for Financial Inclusion (2016-2022), in particular Pillar 1 (Access and Use of Financial Services) and Pillar 3 (Consumer Protection and Financial Education).²¹ Client focus groups demonstrate that in terms of lending, they have limited to no other options which meet their business needs. They also demonstrate positive trends in income, though information was less conclusive in terms of capacity to create employment. This was true, even during economic downturns in recent years.

Futuro has included financial education in its offering, emerging from a relationship with The Embassy of Sweden's "Women in Business" program. The endline of this project demonstrated increased levels of financial literacy as well as an impact on financial habits - such as separating household from business funds and the practice of savings.



Clients further demonstrate an awareness of the insurance products- including the fact that their loans are insured. This is an important shift in market which has demonstrated lack of knowledge of insurance.

One area where Futuro is yet to offer a service which clearly responds to the clients' needs is savings. Clients reports utilizing informal savings groups and mobile money platforms as an alternative. They also indicate that well designed products may encourage informal groups to open accounts with Futuro. Linkages with M-PESA (and eMola) could also encourage greater savings within Futuro. The need for improved digital channels was clearly indicated by clients, and has been recognized and incorporated into Futuro's plans.

Another area where Futuro plans to grow but has the potential to be more aggressive is financing the agricultural value chain, as this is a major economic driver in Northern Mozambique.

²¹ https://www.bancomoc.mz/media/p32bpcw3/_pt_869_resumo-da-enif.pdf

4.2 COHERENCE

How well does the intervention fit?

Internal coherence:

Outcome 2 of the Swiss Cooperation Programme Results Framework (2022-5) seeks *enhanced sustainable employment and income for young men and women and the economically disadvantaged*. SDC's investment and support to Futuro seeks to contribute directly to several indicators:

Table 37: Relevant Results Framework Indicators

	Baseline ('22)	Target ('25)
# of persons having new or better employment	0	1,660
% change in yearly net income for MSMEs	0	30
# of people having access to and making use of formal financial products and services	5,000	20,000

To this end, the support to Futuro shows a high degree of coherence with the Swiss Cooperation's targets. SDC has taken deliberate steps to ensure that Futuro is aware of the other programs that it supports. SDC does not direct specific collaboration efforts, but seeks to foster collaboration where possible. Some examples of programs in which Futuro has collaborated include:

- Loan for youth start-ups with Helvetas (2017-2019)
- Deposit accounts (and potentially loans) to SME business development providers for youth in 5 districts of Nampula with Helvetas (on-going)
- Agricultural market development project linking medium-sized aggregators to Futuro for loans with DAI (2020)
- Upcoming agricultural market development project with DAI seeking to explore potential linkages.

Both the project implementors and Futuro appear to have made a good faith effort at collaboration on these initiatives, but they have run into some specific challenges:

- Geography – three of the four projects work in different geographies than Futuro's current presence (although expansion will address this), making linkages challenging
- Products and skills – Futuro does not offer start-up loans, nor does it have any products, appraisal or monitoring systems well aligned for start-ups. The same is true of agriculture. As such, although efforts were made, the pilot schemes did not reach scale or demonstrate high degrees of success or sustainability to date.
- Systems and internal capacity - the new project to support BDS providers is interesting except for their locations, outside of Futuro's present districts. Currently the BDS have accounts with Futuro, which they access through M-PESA, but Futuro's LPF is not linked to M-PESA, and it is also in the process of changing systems. So, this linkage increases manual operations at



present, though could be more interesting once the digitization strategy is implemented.

In the past, this collaboration has been challenging but Futuro's current business plan is well aligned to be able to serve similar programs more effectively in the future. Some projects have indicated that Futuro was the only bank willing to work with their projects, while others have indicated that it was not the best placed. Thus, in terms of internal coherence, it can be assessed that the efforts are well aligned with Swiss Cooperation's Strategy, but Futuro's geography, skills, products and systems have not in the past been perfectly aligned to facilitate cooperation. These experiences, however, have had a positive impact and Futuro's business plan does seek to position itself to serve similar interventions more effectively over the course of the next five years.

External coherence:

In the financial ecosystems, Futuro has linked its loan disbursements to banks and payments to M-PESA. It uses the CRC in its loan processes, demonstrating that it has kept abreast of the sector as it evolves.



Over the past years, substantial donor funds have gone into supporting agricultural development, all with some target of increasing access to agricultural finance, and all finding it difficult to do this effectively. Futuro's urban focus made it a mismatch for these efforts. A few recently launched programs including government projects supported by the World Bank (Mais Oportunidades, E4LP) and some in development do include an urban focus, with both training for MSMEs and access to finance. They are not yet implemented at scale.

Some smaller projects, such as Women in Business, were sector-agnostic, which made it possible for Futuro have very fruitful collaboration. It is important to underline that the donor focus on rural areas does not imply that Futuro's support to the unbanked in urban areas is not relevant or impactful (Section 4.2 and 4.5) but that it has made effective collaboration challenging.

The business plan, with its greater focus on agriculture will help to better position Futuro for synergies with donor-funded rural and agricultural programming. This also includes both SDC projects and Hollard agricultural insurance products. Futuro has already initiated conversations with FTFP and submitted a proposal for a grant to assist in its positioning to serve the agricultural sector. Also, as new donor projects focus more on urban areas, there may also be greater synergies in urban markets as well.

4.3 EFFECTIVENESS

Do the results contribute to the outcomes as planned?

The training interventions were very well aligned with the needs of Futuro, and Futuro has demonstrated a willingness to absorb capacity building. Almost all financed activities demonstrated tangible results. SDC showed willingness to adapt its intervention to the changing needs of the institution and external environment. A good example is a special support provided during COVID-19.

The table below presents an overview of the achievement of the different objectives, outcomes and activities. As can be seen,

- 87% of planned activities were fully implemented from 2018-2023
- 81% of targeted outcomes were fully met
- Outcomes targeted increased income and assets were achieved. Employment could not be confirmed.

The areas where results were not fully met were driven by the following:

- Employment – Futuro does not track changes in income or employment of its clients, even though it is an indicator for SDC. This could be included in the KoboToolbox to permit regular monitoring.
- Additional shareholder- Futuro's ability to attract a new shareholder was outside the scope of this assignment, but interview with KfW revealed that its current size is an impediment for many social investors in the financial inclusion space.
- BOD committees not yet fully functioning – this is an area which requires strengthening. New risk committee and remuneration committee created, but not yet active. Audit committee should be revised in terms of composition.
- Business skills training to 45,000 people was not fully aligned with the project funded by Women in Business. There may have been a mismatch in terms of targets.
- Credit scoring system - this has been included in ongoing digitalization plans, still anticipated for 2023.
- Integration LFP/M-PESA – this was not done, and is not recommended given the lack of stability of LPF. It is better to wait till the new system is operational.

While women have traditionally been Futuro's target, there is an under representation of women on the board, management and a downward trend in staff. This has been recognized by the new HR manager, and has been incorporated into management dashboards under design to ensure better management of women's role in the institution and representation among the clients.



Table 38: Analysis of Achievement of Results		
Target 2018-2019	Target 2021-2023	Achieved
Objective		
- Increase of employment, income and wealth of rural of urban poor in Northern Mozambique through increased availability of financial products tailored to their needs	- Increased income of rural and urban poor by - promoting their financial inclusion	✓ FGDs indicate increased income and wealth across all segments of both active and former clients. ? Employment less easy to ascertain, as MEs do not employ people and participating SMEs had not indicated growth in number of employees.
Outcomes		
- Access and proximity to diversified financial services by low-income rural and urban men and women in Northern Mozambique is increased.	- 15,000 served with 8,790 active - 80% women - Some outreach outside of Nampula City	✓ Over 35,000 client served and 12,247 active clients including deposits and loans (8/23) ✓ Futuro's branch is urban, and considered to be accessible by its clients. ✓ Small number of clients in Namialo, which is rural
- Diversified palette of financial services offered by the new bank, which will include products targeting poor small men and women farmers to increase their assets and lift them out of poverty	-	✓ Futuro offered savings, loans and insurance to groups and individuals. ✓ Futuro has improved segmentation, offering different products to MEs and SMEs. ✓ Futuro had some pilots for youth start-ups and agriculture in coordination with other projects.
- Broadening of bank's investor base in order to allow bank consolidation, expansion and bigger coverage.	- At least 1.2 million additional shareholding by June 2023	~ This target was established in 2021, after Hollard entered, thus it is understood that the target was an additional USD 1.2 million. Futuro was able to raise USD 2 million in debt, but no additional equity.
- A solid and financially sustainable micro-bank that will branch out within five years, serving 6,000 small solidarity groups with average 5.	- Improved branding and marketing strategy - Middle Management assumes more responsibility by June 2023	✓ Futuro's branding is significantly improved from 2021, with consistency in physical, digital and web colors, logos. It is well known in its current market ✓ Head of Finance and HR are relatively new and clearly taking greater responsibility for their roles. Coaching is in place to upskill operations, and a new resource, Executive Assistant, shows promise in strategic initiatives.

Table 38: Analysis of Achievement of Results		
Target 2018-2019	Target 2021-2023	Achieved
	<ul style="list-style-type: none"> - By June 2023, BOD has banking, microfinance, microinsurance skills - By June 2023, BOD committees are operating efficiently/ effectively - Increased Operational efficiency: 80% individual loans by June 2023 - By December 2021 - Breakeven without management - By June 2023 Operational Breakeven 	<ul style="list-style-type: none"> ✓ BOD has banking, microfinance and microinsurance skills ✗ BOD committees not yet operating according to good practice ✓ 78% of clients and 96% of portfolio in individual loans ✓ 2021 achieved breakeven except management ✓ Breakeven in monthly operations in June 2023
-	<ul style="list-style-type: none"> - Fin Literacy and Business Skills courses designed - Trainers trained Basic Financial Literacy to all group clients - Business skills to 45,000 MSMEs with WIN 	<ul style="list-style-type: none"> ✓ Fin Literacy and business skills courses designed 2021 ~ Training rolled out to 3,607 clients of which 65% women
Activities		
<ul style="list-style-type: none"> - Expat Management - Development and launch Mobile disbursement system - Technical support for branding and marketing - Search for new investment - Short term risk and credit management specialist - Support for COVID-19 Measures - Support to 8% COVID write-off 		<ul style="list-style-type: none"> ✓ Expat management on-site ✓ Linkage to M-PESA complete for payments, and bank transfer for larger disbursement ✓ Branding and marketing activities complete ✓ Hollard brought on a new shareholder 2020 ✓ Adjustments made to credit risk management evident in new positions – Credit, Internal Controls, Recoveries ✓ Futuro successfully navigated COVID and benefitted from the technical and financial support.
	<ul style="list-style-type: none"> - Expat Management - Staff training 	<ul style="list-style-type: none"> ✓ Expat management on-site ✓ Staff trainings included KYC, AML, Customer communication, Business Analysis, Credit appraisal, Portfolio quality management, identification of counterfeit banknotes, sales techniques, math, interest rates, financial projections, recoveries, code of conduct,

Table 38: Analysis of Achievement of Results		
Target 2018-2019	Target 2021-2023	Achieved
	<ul style="list-style-type: none"> - KoboToolbox - Credit Scoring system - Integration: Primavera, LPF, M-PESA - Branding - Insurance product development - Market research for expansion - Finance Literacy – with Women in Business 	<p>insurance, leadership skills and senior management workshop.</p> <p>✓ KoboToolbox operational</p> <p>✗ Credit scoring system not yet operational</p> <p>~ Integration LPF/Primavera complete. <i>M-PESA not recommended.</i></p> <p>✓ Branding evident through videos, banners, website, printed materials, office</p> <p>✓ Business insurance products now being offered</p> <p>✓ Market research conducted in Namialo</p> <p>✓ Financial literacy project completed in 3/23. Planning new rollout in Namialo.</p>

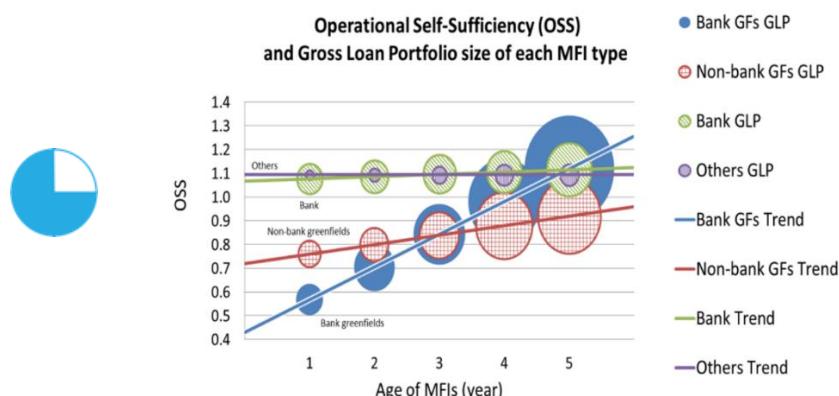
4.4 EFFICIENCY

Where the results achieved in a cost-effective way?

Futuro is relatively small for a greenfield²² microbank. It has struggled to meet its business plan targets in the past, which has resulted in lower returns than anticipated on investment. Having said that, given the challenging environment in which Futuro operates, previous plans may have been overly optimistic.

Although there is limited information on recent trends in the performance of greenfield microfinance and banking investments, a World Bank study in 2014 found that greenfields in Sub-Saharan typically require 5 years to breakeven, and smaller non-bank greenfields on average do not achieve breakeven in this period. Futuro, therefore, has performed on par with average at that time.

Figure 32: Trends in Sustainability of Greenfields²³



The Operational Efficiency of Futuro was assessed in Section 2.4.5. There are ways that, looking to the future, Futuro can make its operations more efficient, key among them is improving technology and increasing client officer productivity. Also, leveraging its banking operations infrastructure to more aggressively seek savings as a source of funding.

The technology has been hampered to date by the core banking software, LPF. If it is possible to support the bank moving forward to identify and acquire a software which responds more holistically to its digitalization plans, this could exponentially improve its operational efficiency in the future.

In terms of cost efficiency, the cost of serving one client is approximate CHF 72²⁴. This compares to CHF 241 to 256 per beneficiary in other SDC programs running at the same time²⁵. Further, SDC's funds were able to leverage private capital from Hollard as well as debt from IFAD and Hollard at a rate of 1.3:1 over the project period²⁶.

²² Greenfield is a start-up bank or microbank, often backed by institutional shareholders

²³ <https://documents1.worldbank.org/curated/en/935191468191647988/pdf/WPS7029.pdf>

²⁴ Total TA funding CHF 2,522,000 divided by 35,000 served by Futuro during the period.

²⁵ InoVagro CHF 9176000/38000 and CHF HortiSempre 7,177,000/27,900

²⁶ Private capital (Equity 1 million USD+Hollard debt 669,660 USD+IFAD Debt 2 million USD) divided by SDC total of CHF 2,522,000 (USD 2,815,283 using oanda rate as of 6/29/2023 – the most recent approved funding.)

4.5 IMPACT

How are we contributing to the overall goal?

Futuro's stated purpose is to "To enable positive economic transformation for individuals and growing entrepreneurs in Mozambique." The Support that SDC provided to future sought to achieve:

1. "Low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs have increased access to affordable financial services, including loans, savings and micro insurance;
2. Low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs, improve their financial and business skills, supporting their sustainable business growth;
3. Futuro Bank improves profitability and outreach and continues to serve low income rural and urban men and women sustainably)."

Impact is assessed positively with regards to these key objectives:

- ✓ Access to loans, saving and insurance increased through Futuro to markets who did not otherwise have accessed
- ✓ Household and business assets increased and the capacity to pay for household expenses improved in Futuro clients (See Section 3.4)
- ✓ Business skills improved notably for both men and women who participated in financial education training, but also for loan clients who were able to grow their businesses
- ✓ Futuro broke even for the first time in June 2023, fully covering its monthly operational costs with income.



No directly negative effects were detected from reports or during the focus group discussions.

Futuro does not yet have a monitoring system in place to track its social targets in accordance with SDC agreements. As noted in Section 4.3, KoboToolbox could be a good tool to incorporate simple datapoints such as monthly sales and number of employees to track during monitoring.

The anticipated work to develop an ESG framework and to become certified in the Cerise/SPTF principles will likely assist Futuro to better define and monitor its social targets.

4.6 SUSTAINABILITY

To what extent will the effects be maintained when the SDC's support ends?

From the time that SDC made the investment in Futuro, it was designed to be a sustainable financial institution. Management and BOD have consistently directed efforts toward this goal.

SDC's Technical Assistance Package among other things:

1. Permitted the establishment of a solid institution, well viewed among its peers by the regulator
2. Identified and placed qualified management and strongly dedicated BOD members, who bring needed skills
3. Attracted a likeminded private investor, which has been able to not only provide governance oversight, bring local knowledge of financial inclusion and support in developing new financial services, but who has also provided financial stability in times of crisis (e.g. COVID), and has voice a willingness to increase funding if the financial and social returns are clear.
4. Provided needed tools and skills to establish and solidify operations
5. Futuro should be able to cover the cost of its management moving forward without SDC subsidies.



It will not yet fully cover its operational costs in 2023, so it is not possible to assess sustainability at 100%, but the trends are positive.

The proposed technical capacity building plan addresses important factors which could further support Futuro in its sustainability plans including:

- Updating policies, procedures and risk management system
- Implementing HR performance evaluation, incentive system
- Implement in-house training linked to career path
- Digitalization
- Savings strategy and campaign
- Agricultural loan product, value chain finance
- On-going work to improve online and social media presence
- Support for fundraising and associated legal work.

One key aspect which is not planned is support to procure a more appropriate core banking software. (The choice may eventually be *Kredits*, which is currently being tested, but no procurement has been carried out to define the best system.)

5. RECOMMENDATIONS AND LESSONS LEARNED

5.1 FOR FUTURO MCB

1. *Shareholding* – seek a shareholder with experience as an equity investor in a bank or microbank but ensure a shared social mission.
2. *Board*- as BOD members change, seek greater gender balance on the BOD as well knowledge of the local banking sector.
3. *Governance* – activates the committees to ensure better oversight of audit and risk.
4. *Management* – urgently start to recruit the replacement for the CEO
5. *HR and staffing* - implement planned HR activities. Also, consider the creation of an agridesk with agricultural and agribusiness skills. Hire planned
6. *Internal capacity* – implement planned activities. Place urgency on clarity of workflow of branch processes to ensure they are ready before branch expansion.
7. *Funding*- identify alternative funding plans, including serious consideration of savings mobilization, collaborating with guarantee facilities to mobilize local financing, continuing dialogue to donors such as Whole Planet Foundation and FCDO to learn when credit lines become available.
8. *Credit Management* – move forward with planned efforts in ESG and Cerise/SPTF certification.
9. *Portfolio quality* - conduct a deep portfolio analysis to identify more deeply the segment, sector, geographies, points in the loan cycle, that arrears are occurring. According to the scenario analysis, operational sustainability is sensitive to increases in NPLs.
10. *Information systems*- LPF needs to be changed. Futuro's current plan to change to Kredits may be feasible, but a thorough procurement with pre-identified specifications is a more secure way to ensure that it acquires the right system for its planned needs.
11. *Internal audit*- the function needs to be strengthened by training or recruitment.
12. *Risk management*- the planned risk function will be increasingly important as Futuro expands and diversifies. Given the diversity of the institution's risks, this new position should be charged with the development and oversight of a comprehensive risk management system.
13. *Operational costs*- the business plan could be more aggressive in terms of productivity of client officers and growth of savings. As it is conservative, but may be worth reviewing after a year.
14. *Clients and markets*- review the price sensitivity of SMEs. Interest rates may eventually affect not only demand, but also impact in this segment. Also, SMEs require more information about terms and conditions at an early stage in the process.

5.2 FOR SDC

1. Continue to support Futuro with capacity building, but there is no need to continue to subsidize management costs. The proposed technical support plan is well aligned with its needs
2. The current approach of introducing and sharing information between Futuro and other projects is appropriate. Futuro will not always be in a position to respond, but it also provides an opportunity to plan for responding better to these projects in the future.
3. Consider supporting the procurement of a new core banking software.
4. As needed (if not supported by other partners), consider support for Futuro's efforts to be certified in Cerise/SPTF principle.
5. Consider providing capacity building as needed to the planned Risk function to develop and oversee a comprehensive risk management system.

ANNEXES

ANNEX 1 - TERMS OF REFERENCE

1. Introduction

This document sets out the requirements relating to the external evaluation mandate for Futuro Mcb, the selection process and criteria.

The Terms of Reference (ToR) describe the purpose, context, objectives (including guiding indicative evaluation questions), scope and a proposed methodology of the evaluation. They further describe the evaluation process and the expected deliverables. The ToR will become a component of the contract for this evaluation mandate.

2. Background information and context of the evaluation

Access to finance is one of the main challenges to doing business in Mozambique and is a major obstacle for the development of economic activities, such as agriculture and commerce.

A significant cluster of micro, small and medium sized enterprises (MSMEs) such as smallholder farmers, traders, street vendors and tailors is growing fast in the northern province of Nampula. However, they have insufficient access to affordable financial services, which limits their ability to generate employment and income opportunities for the poor. Despite efforts to improve their financial inclusion, vulnerable segments of the population continue to be broadly excluded, and there is still demand for products that are specifically tailored to the financial needs of the poor.

In 2017, the Swiss Agency for Development and Cooperation (SDC) was a pioneer in supporting the creation of Futuro Microbank S.A. to facilitate access to financial services for poor households and low-income unbanked entrepreneurs in Nampula. SDC became the majority shareholder of the bank and approved a technical assistance package in 2018 to support its development.

The Futuro Microbank contributes to Swiss portfolio outcome 2 of the Swiss Cooperation Programme for Mozambique 2022-2025 - i.e., enhanced sustainable employment and income for young men and women and the economically disadvantaged. The bank's goal is to increase the incomes of rural and urban poor in the northern province of Nampula, by facilitating the financial inclusion of poor households and low-income micro, small and medium-sized entrepreneurs.

The support to Futuro (in the current phase) has the following objectives:

1. Low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs have increased access to affordable financial services, including loans, savings and micro insurance;

2. Low income rural and urban men and women, including farmers and micro, small and medium entrepreneurs, improve their financial and business skills, supporting their sustainable business growth;
3. Futuro Bank improves profitability and outreach and continues to serve low income rural and urban men and women sustainably).

Hollard Insurance, one of the largest private sector insurance companies in Southern Africa, which, in 2019, entered into a public private partnership (PPP) with SDC, and invested CHF 500,000 in the bank, paid a share premium and provided short term loans to the bank, in support of the loan portfolio, thus opening exciting new opportunities for growth.

In 2022, Futuro signed a loan agreement of US\$ 2 Million with the International Fund for Agricultural Development (IFAD), in addition to supporting the growth of the loan portfolio, the agreement provides a quality seal to the bank.

With a low capital investment from SDC and Hollard, and low technical assistance packages in comparison with other greenfield microfinance institutions, Futuro has managed to disburse CHF 11.8 million in loans, becoming a good example of efficient use of public and private funds. By mid-2022 it had served around 35,000 clients (5,200 active borrowers) individually or through small groups (84 % women). In addition, the bank has empowered women to take ownership of their investments and helped families to open and sustain their businesses, get better access to health and education and prepare for and respond to different shocks.

3. Objective, scope and focus of the evaluation

Evaluation object, purpose and objectives

SDC intends to conduct an evaluation to assess if, and in which proportion, the support to Futuro Mcb is leading to the achievement of the intended outcomes and impact at beneficiary level. The findings of the evaluation will feed into SDC's reflection of future technical assistance needs of the bank and if there is a need to explore additional interventions in the Financial Sector Development space.

The overall objectives of the external evaluation of Futuro Mcb are:

an analysis of the current situation of Futuro Mcb, in terms of institutional, financial and business developments (financial and business due diligence of Futuro Mcb)

An assessment of the present situation of the Futuro in relation to its overall goal as well as outcomes 1 and 2, according to the OECD/DAC Criteria²⁷ (relevance, effectiveness, efficiency, impact and sustainability). This shall include the results reached so far at output and outcome level and lessons learnt from the implementation of the intervention (including

²⁷ OECD/DAC Network on Development Evaluation: [Better Criteria for Better Evaluation. Revised Evaluation Criteria Definitions and Principles for Use](#) (2019).

main challenges that affected implementation); (iii) Strategic and operational recommendations to SDC for a future SDC Technical Assistance support package to the bank from 2024-27.

Scope

The evaluation will have 2 parts: 1) an institutional assessment of Futuro Mcb; 2) assessment of the development impact of Futuro Mcb.

Assessment of Futuro Mcb's institutional development as of 2023

Conduct assessment of the different fields identified below, identify technical assistance needs and/or provide recommendations for improvement.

Task	General issues to analyze	Specific questions to address
1.1 Shareholding Structure, Corporate Governance & Management		
Shareholding structure	Confirm current shareholding structure.	Assess implications of share premium paid by Hollard.
Executive and non-executive directors	Assess board of directors.	Assess current board structure and functioning. Is it in line with international best practice?
Corporate governance	Assess the corporate governance of Futuro.	Is the corporate governance in line with international best practice?
Management	Assess the current management structure.	Does management have the necessary skills and experience to manage the bank and implement the Business Plan? Is the key person risk still significant? Are strategies in place to mitigate this risk? Are the training and development needs accurately reflected in the Business Plan?
1.2 Strategy & Market		
Business strategy and product lines	Assess Futuro Mcb's strategy relative to present and expected economic environment, sources of competitive strength, main elements of the business strategy, major business risks perceived and strategies to minimize/mitigate such risks.	Assess the feasibility of Futuro Mcb's Business Plan 2023-2027. Analysis of the financial sector in Mozambique, with focus on MFIs.
Key competitors	Assess Futuro Mcb's current and expected market positioning.	
Branch network	Assess Futuro Mcb's main delivery channels and branch expansion plans.	
1.3 Funding, Asset liability management & liquidity		
Funding	Assess Futuro Mcb's current and expected funding strategy (funding sources).	Assess the funding mix proposed in the Business Plan 2023-2027 and the different risks that can derive from it (higher interest-rate environment and other factors). Is there a risk of "mission drift" with the diversification of funding sources? If yes, how could it be mitigated?
Asset & Liability management	Assess Futuro Mcb's asset & liability management (structure, functioning etc.).	

Task	General issues to analyze	Specific questions to address
1.4 Operations & Risk Management		
Portfolio growth	Assess Futuro Mcb's product portfolio growth since 2017 and feasibility of targets expressed in the business plan.	Are there any new product development planned in the context of the new business plan, and what are the business/regulatory implications for Futuro Mcb (including micro insurance and agriculture loan)? Is the intended growth of the portfolio indicated in the BP realistic? What risks can come from it?
Credit Management	Assess Futuro Mcb's loan origination process, including: Risk-rating system used (credit scoring or equivalent); E&S management Collateral management & monitoring; NPL management; Exposure to related parties; Management report.	How does Futuro Mcb compare to other microfinance institutions in the region in relation to credit management? How are environmental & social risks managed? Does Futuro Mcb apply "client protection principles" such as SPTF+Cerise Universal standards (https://cerise-sptf.org/universal-standards/)?
Portfolio quality	Assess Futuro Mcb's portfolio composition and quality (average outstanding loan size, diversification, NPL, write-off, etc.)	How does Futuro Mcb compare to other microfinance institutions in Mozambique and the region in relation to portfolio quality? Are the expected levels of portfolio quality during the growth of the portfolio realistic? What risks exist?
Information systems, compliance and audits	Assess Futuro Mcb's main information systems, their coverage and functions, their use in internal reports. Assess Futuro Mcb's internal and external audit functions.	
Operational costs	Assess Futuro Mcb's operational cost structure, as well as operational efficiency (e.g. operating expense Ratio, cost per active client, borrowers per client officer, and active clients per staff member).	Are operational costs partially subsidized by donor funding? What about future cost recovery?
Financial performance	Assess Futuro Mcb's current and financial performance (e.g. P&L, provisioning, RoA, and RoE).	Sensitivity analysis to the main parameters (e.g. lending interest rates, funding interest rates, NPL ratio, provisioning level).
1.5 Capital adequacy & regulatory framework		
Regulatory framework	Which are the regulatory requirements applying to Futuro Mcb?	Are there any anticipated change in regulatory requirements which may apply to Futuro Mcb?
Accounting standards	Which accounting standards are being used by Futuro Mcb?	

2) Assessment of the development impact of Futuro Mcb

The breadth and depth of the evaluation will be informed by the indicative evaluation questions that the evaluation seeks to answer (see chapter below). The timeframe is from 2017 (when the bank was created) to end of 2022. The geographical scope includes Nampula (bank branch and office) and Maputo (for interviews of relevant stakeholders), in Mozambique.

Indicative evaluation questions / key focus area

At the start of the assignment, the evaluator(s), in consultation with the SDC, should further refine and prioritise the questions that are structured according to the OECD DAC criteria. While all the criteria are important, SDC suggests that the consultant places a greater focus on the following criteria (marked with an asterisk below): effectiveness, efficiency and sustainability. Cross cutting aspects such as poverty alleviation, good governance and gender should also be taken in consideration. A list of guiding questions is proposed below. The bidder is expected to propose a list of questions within the technical bid.

Relevance	<p><i>Are we doing the right things?</i></p> <p>Do the products and services offered by Futuro respond to the needs of the target groups (including price, outreach, etc)?</p> <p>Is the approach taken by Futuro Mcb really responding to the key problems/challenges of access to finance of our target group?</p> <p>To what extent is Futuro Mcb responding to national needs and priorities in relation to financial inclusion?</p>
Coherence	<p><i>How well does the intervention fit?</i></p> <p>Internal coherence: to what extent is the intervention compatible with other Swiss development cooperation interventions in northern Mozambique (consistency, complementarity and synergies)? Are potential synergies and complementarities being realized/maximized?</p> <p>External coherence: to what extent is the intervention compatible with interventions of other actors (bilateral and multilateral donors, private sector, UN, NGOs etc.) in the country and thematic field (complementarity and synergies). Are potential synergies and complementarities being realized/maximized?</p>
Effectiveness*	<p><i>Do the results contribute to the outcomes as planned?</i></p> <p>How did the intervention contribute to the results? Is it possible to demonstrate to what extent the changes can be attributed to Futuro Mcb and not to external factors?</p> <p>To what extent have the planned results been achieved?</p> <p>Which major factors have influenced the achievement or non-achievement of the expected results?</p> <p>How have gender considerations been mainstreamed?</p>
Efficiency*	<p><i>Where the results achieved in a cost-effective way?</i></p> <p>To what extent was the intervention implemented cost-efficiently and in a timely way?</p>

Impact	<p><i>How are we contributing to the overall goal?</i></p> <p>Which positive, lasting effects and behavioural changes can be identified?</p> <p>Which unexpected and unintended positive and negative (side) effects have occurred?</p> <p>Is the monitoring system in place to track the impact of the development intervention suitable in terms of its objective?</p>
Sustainability*	<p><i>To what extent will the effects be maintained when the SDC's support ends?</i></p> <p>What evidence is there that the achieved effects will continue after the end of SDC's Technical Assistance Package?</p> <p>Which major factors might enhance the effects achieved or prevent them from continuing?</p> <p>Can Futuro Mcb and involved stakeholders continue the activity independently (technical capacity, financial resources, etc.)?</p> <p>Which institutional, financial or technical measures could be implemented to increase the chances of the development intervention having a sustainable impact?</p>

The consultant(s) should also evaluate the following areas:

- a. Institutional background, capacity and corporate governance

This includes (1) a snapshot of the establishment of Futuro Mcb as a registered and licensed microbank, including legal compliance of constitutive documents, planned services and policies with relevant laws and regulations (2) assess if its key staff is well equipped (in terms of skills, experience and training) to achieve the intended results and (3) the assessment of its current shareholder structure and level of corporate governance, including the board's commitment to responsible finance practices.
- b. Mapping of financial sector development initiatives of other donors

The consultant is expected to, after consultation of relevant donors (see point 4.1), map the different financial sector development initiatives they are currently implementing or are designing and assess their relevance in relation to Futuro's outcomes (complementarity, synergies, etc).

4. Evaluation process and methods

Evaluation methodology

The exact evaluation methodology is to be proposed by the bidder and presented in the technical proposal. It is recommended to include:

Desk review: analysis of context and banks' related documents, as well as relevant laws and regulations;

Interviews: briefing and exchanges with relevant stakeholders:

Field Visit: visit to Futuro branch in Nampula, interaction with CEO and key staff.

The overall approach for the review should be collaborative. The review team will closely collaborate with the main stakeholders in order to ensure that the findings of the review are accurate, relevant and likely to be used. The partners to be interviewed can include, but not limited to, representatives from the following organizations:

- Futuro Mcb (management, board of directors, staff and clients)
- Hollard Mozambique
- Bank of Mozambique
- AMOMIF (Association of Microfinance Institutions)
- FSDMoç
- KfW
- Technoserve
- SwissContact
- Helvetas
- DAI
- Donor community will include the following;
- Sweden
- Germany
- World Bank
- USAID
- UNCDF

Roles and responsibilities of the evaluator(s)

The evaluating team composition is to be proposed by the bidder and presented in the technical proposal. It is recommended to have a team composed by 1 international and 1 national expert with complementary knowledge/experience, one of which should be the lead consultant, being the contractual partner of the Swiss Cooperation Office in Maputo.

Evaluation process and timeframe

The following work plan provides suggested dates, responsibilities and resources needed for the various activities of the evaluation process. This work plan will eventually be adapted by

the evaluation team, in consultation with the SDC. Award decision and contracting are expected to take place prior to the 21 and 28 July 2023, respectively.

Activity	Date	Responsibilities
Kick-off meeting with evaluation team and reference group	24 Aug	SDC; Consultant/s
Desk study	21 Aug – 8 Sep	Consultant/s
Field mission with data collection, interviews, evaluation workshops, etc.	11 – 14 Sep	Consultant/s
Debriefing	22 Sep	Consultant/s
Data analysis and preparation of Draft Evaluation Report	14-29 Set	Consultant/s
Draft Evaluation Report	29 Set	Consultant/s
Feedback on the Draft Evaluation Report by the evaluation manager and reference group	06 Out	SDC; reference group
Final Evaluation Report	13 Out	Consultant/s
SDC Management Response	21 Out	SDC

The timeframe is to be discussed with the consultant(s), but SDC estimates that the work will be undertaken over a timeline of approximately three months, with an estimated 25 working days. Given that the field mission falls during the European summer holidays, it is probable that some donors will be unavailable and there may be a need to conduct virtual meetings. A certain level of flexibility is expected from the consultant in order to receive information from all the relevant stakeholders.

Task/Activity	Proposed nr of working days
Preparatory work, data collection and analytical work, organizing meetings with local stakeholders	08
Field Mission to Mozambique (Nampula/Maputo) including travel	12
Report writing	10
<i>Total</i>	30

Non-disclosure agreement

Given that Futuro Mcb is a commercial organization with trade secrets as well as sensitive and confidential information, the selected consultant is expected to sign a Non-Disclosure Agreement prior to the start of the work. Additional information related to the assignment will be shared with the consultant after the NDA is signed.

5. Deliverables

The following deliverables are expected to be submitted by the evaluator(s):

Detailed workplan	A kick-off meeting prior to the start of the assignment will be held with the consultant(s) where they are expected to present a detailed work plan including an evaluation matrix and outlining the different activities, methods and responsibilities to be undertaken.
Debriefing workshop	The consultant/s should hold a capitalisation workshop after the field mission, to share first findings and to discuss and receive comments from the stakeholders.
Draft evaluation report	<p>The draft report should include the evaluation findings, conclusions and recommendations.</p> <p>Stakeholders will comment on the draft report, focusing on completeness, language, structure, comprehensibility and any factual inaccuracies. The evaluator(s) should finalise the report in view of these comments.</p> <p>The report should have 3 parts:</p> <ul style="list-style-type: none"> Institutional assessment of Futuro Mcb Evaluation of the development impact of Futuro Mcb Recommendations for a future SDC Technical Assistance support package to the bank from 2024-27
Final Evaluation Report	<p>The report should be in English, logically structured, contain evidence-based findings, conclusions, lessons and recommendations and their correlations. All information that is not relevant to the overall analysis belongs in an annex. The report should respond in detail to the evaluation questions and key focus areas. It should include a set of 6 to 10 specific recommendations formulated, and identify the necessary actions required, who should undertake these, and possible timelines (if any).</p> <p>The evaluation report should have normal margins and font Arial 11. It should not exceed 40 pages, including an executive summary (2-3 pages), but excluding the annexes. The report should contain clear references to important information/data available in the annexes.</p> <p><u>Proposed structure of the evaluation report:</u></p> <ul style="list-style-type: none"> Cover page Table of contents Acronyms and abbreviations Acknowledgments Executive summary Introduction Description of Futuro Mcb Findings, incl. results Conclusions Recommendations and lessons learnt

	Annexes (compulsory) Terms of reference Filled out Assessment Grid Complete list of stakeholders and others consulted and interviewed Detailed description of the review process, including data sources and possible methodological weaknesses and limitations Analysis of the intervention logic (logframe or Theory of Change): extent to which objectives have been achieved Mapping of other FDS initiatives of donors and their relevance related to Futuro
Completed Assessment Grid	The evaluator(s) are expected to deliver a completed Assessment Grid for the DAC Criteria for the evaluation. It must be completed and attached to the final evaluation report. If the evaluator(s) do not assess all the criteria, the relevant reasons must be specified in the report as well as in the Assessment Grid.

6. Reference Documents

After signing the contract, the evaluation manager (SDC) will share the following documents with the evaluator(s) for the desk review:

Documents on the development intervention, e.g. business plan, factsheets, credit proposals, financial offers, annual plans and reports for the phases, etc.

General document on the SDC, e.g. the Swiss Cooperation Programme, SDC guidance documents and policies for the sector, etc.

An open list of key people to interview.

7. Reporting

The evaluator(s) will report to the evaluation manager of the SDC, in Maputo for the entire duration of the assignment. Operational support will be provided by the country cooperation offices and the National Programme Officers (NPO) in Mozambique.

ANNEX 2- METHODOLOGY (BIBLIOGRAPHY, INTERVIEW LIST, LIMITATIONS)

Primary source of data collection:

- **Desk Review** - Ayani will conduct a thorough document review to collect and analyze quantitative data and qualitative data from secondary sources, including the 2019 *Finscope Consumer Survey*, World Bank *FINDEX*, Data from the Bank of Mozambique, the National Financial Inclusion Strategy, relevant regulations for microbanks, recent studies from FSDMoç, and recent studies carried out by Ayani in the Nacala corridor for FNDS, FTF Premier and GREPOC. The team will seek such data and literature as: programme documents, strategy documents, mid-term review, log frame and M&E framework, annual plans, progress reports, research, communications, publications, funding agreements, portfolio and financial data, management reports, board minutes and reports from the regulator.
- **Key informant interviews:** Data gleaned desk study will be deepened through semi-structured interviews with main actors in the financial sector. KIIs will generally use the tools developed during the inception phase but may be adapted as more information is gathered. The precise number of KIIs cannot be predetermined, but we have set a maximum of 15 people to be interviewed, including the list of organizations indicated in the Terms of Reference, but may also consider other investors in the bank (such as IFAD) or potential partners (such as Credi Seguro or Fintechs), if deemed appropriate.
- **Institutional assessment:** Given that some of the sustainability questions focus on Futuro's capacity to continue activities as well as which institutional, financial or technical measures can be implemented, it is important to get an idea of the performance of the institution. Much of this can be gathered during the desk study, but data and reports will be confirmed through interviews with the Bank's shareholders (SDC, Hollard), leadership (management and board members), senior staff in key departments and a sample of branch and field staff. This type of analysis usually requires 6 days of field work, following the desk review. Ayani will adapt its standard instruments to the needs of the evaluation but it will be largely based on the aspects presented in the table on the following page
- **Focus Group Discussions:** Ayani will undertake focus group discussions (FGDs) with clients grouped by gender and segment (micro, small, medium, agriculture. It is anticipated that six FGDs will be organized, with each between 7 and 12 participants. Ayani will apply a series of interactive tools based on the MicroSave Research tools, including *Wealth Ranking; Household Generation, Receipt and Spending of Cash Analysis; and Expenditure And Saving To Meet Expenditure Analysis*, which permit an assessment of trends in needs as well as wealth and income, as well as potential attribution to the financial services accessed through the Bank. Each group discussion is expected to last approximately 90 minutes.
- **Debriefing Workshop:** Ayani will facilitate a workshop with stakeholders (to be decided during inception) to review the initial findings and test perception and recommendations. It will use participatory techniques to ensure substantive exchanges among partners and stakeholders.

Area	Key Issues	Specific questions
Shareholding Structure, Corporate Governance & Management		
Shareholding structure	Confirm current shareholding structure.	Assess implications of share premium paid by Hollard.
Executive and non-executive directors	Assess board of directors.	Assess current board structure and functioning. Is it in line with international best practice?
Corporate governance	Assess the corporate governance of Futuro.	Is the corporate governance in line with international best practice?
Management	Assess the current management structure.	Does management have the necessary skills and experience to manage the bank and implement the Business Plan? Is the key person risk still significant? Are strategies in place to mitigate this risk? Are the training and development needs accurately reflected in the Business Plan?
Strategy & Market		
Business strategy and product lines	Assess Futuro Mcb's strategy relative to present and expected economic environment, sources of competitive strength, main elements of the business strategy, major business risks perceived and strategies to minimize/mitigate such risks.	Assess the feasibility of Futuro Mcb's Business Plan 2023-2027. Analysis of the financial sector in Mozambique, with focus on MFIs.
Key competitors	Assess Futuro Mcb's current and expected market positioning.	
Branch network	Assess Futuro Mcb's main delivery channels and branch expansion plans.	
Funding, Asset liability management & liquidity		
Funding	Assess Futuro Mcb's current and expected funding strategy (funding sources).	Assess the funding mix proposed in the Business Plan 2023-2027 and the different risks that can derive from it (higher interest-rate environment and other factors). Is there a risk of "mission drift" with the diversification of funding sources? If yes, how could it be mitigated?
Asset & Liability management	Assess Futuro Mcb's asset & liability management (structure, functioning etc.).	
Operations & Risk Management		
Portfolio growth	Assess Futuro Mcb's product portfolio growth since 2017 and feasibility of targets expressed in the business plan.	Are there any new product development planned in the context of the new business plan, and what are the business/regulatory implications for Futuro Mcb (including micro insurance and agriculture loan)?

Area	Key Issues	Specific questions
		Is the intended growth of the portfolio indicated in the BP realistic? What risks can come from it?
Credit Management	Assess Futuro Mcb's loan origination process, including: <ul style="list-style-type: none"> • Risk-rating system used (credit scoring or equivalent); • E&S management • Collateral management & monitoring; • NPL management; • Exposure to related parties; • Management report. 	How does Futuro Mcb compare to other microfinance institutions in the region in relation to credit management? How are environmental & social risks managed? Does Futuro Mcb apply "client protection principles" such as SPTF+Cerise Universal standards (https://cerise-sptf.org/universal-standards/)?
Portfolio quality	Assess Futuro Mcb's portfolio composition and quality (average outstanding loan size, diversification, NPL, write-off, etc.)	How does Futuro Mcb compare to other microfinance institutions in Mozambique and the region in relation to portfolio quality? Are the expected levels of portfolio quality during the growth of the portfolio realistic? What risks exist?
Information systems, compliance and audits	Assess Futuro Mcb's main information systems, their coverage and functions, their use in internal reports. Assess Futuro Mcb's internal and external audit functions.	
Operational costs	Assess Futuro Mcb's operational cost structure, as well as operational efficiency (e.g. operating expense Ratio, cost per active client, borrowers per client officer, and active clients per staff member).	Are operational costs partially subsidized by donor funding? What about future cost recovery?
Financial performance	Assess Futuro Mcb's current and financial performance (e.g. P&L, provisioning, RoA, and RoE).	Sensitivity analysis to the main parameters (e.g. lending interest rates, funding interest rates, NPL ratio, provisioning level).
Capital adequacy & regulatory framework		
Regulatory framework	Which are the regulatory requirements applying to Futuro Mcb?	Are there any anticipated change in regulatory requirements which may apply to Futuro Mcb?
Accounting standards	Which accounting standards are being used by Futuro Mcb?	

List of Key Informants

SDC	Steven Geiger
Hollard Mozambique	Henri Mittermayer
Hollard Mozambique	Israel Muchena
Bank of Mozambique (FGD)	Ana Amelia Moraes
IFAD	Manzi Nadine
KfW	Jens Dorn
Technoserve (Premier)	Marc Steen
Technoserve (Win)	Sarah Bove
SwissContact	Regula Malgiaritta
Helvetas	Inês Domingos
MFR Rating	Aldo Moauro
DAI	Morgen Gomo
Whole Planet Foundation	Zoe So

LIST OF PRIMARY INTERVIEWS WITHIN FUTURO

Board Chair	Pierre Strauss
Board Member	Bruna Quintas
Board Member	Israel Muchena
Board Member	Klaus Maurer
Board Member	Norbert Fuchs
Chief Executive Officer	Eduardo Lucchesi
Credit Department,	Alexandre Vuma
Finance Department	Ali Abdulla
Human Resources	Vinicius Lucchesi
Insurance	Ricardo
Internal Audit	João Guane
IT Department	Edson Machevo
Legal Department / Corporate Secretary,	Amelia Kamanga
Loan department Head, Banking Operations,	Vuruca Massote
Product Development/Marketing,	Helena Mucachua
Treasury	

ANNEX 3 - ANALYSIS OF INTERVENTION LOGIC AND FINAL EVALUATION MATRIX

Evaluation Area	Key question	Points of Analysis	Source of information
Context and Landscape	<ul style="list-style-type: none"> • Introduction to context of financial inclusion in Futuro MCB's market • Map of different financial sector development initiatives they are currently implementing or are designing and assess their relevance in relation to Futuro's outcomes (complementarity, synergies, etc) • Relevant law and regulations 	<ul style="list-style-type: none"> • Current status and trends in financial inclusion nationally and (as available) the local market • Financial sector development projects • Agricultural development projects • MSME development projects • Initiatives to promote digital opportunities and data sharing • Relevant laws and regulations and expected changes 	Desk Review (DR) Institutional Assess (IA) Key Informant Interviews (KIIs)
Institutional Assessment	<ul style="list-style-type: none"> • snapshot of the establishment of Futuro MCB as a registered and licensed microbank, including legal compliance of constitutive documents, planned services and policies with relevant laws and regulations • assess if its key staff is well equipped (in terms of skills, experience and training) to achieve the intended results and • assessment of its current shareholder structure and level of corporate governance, including the board's commitment to responsible finance practices 	<ul style="list-style-type: none"> • Shareholding structure aligned with current and future needs. Shareholders agreement (including premiums paid) aligned with good practices • Board functioning in line with international best practice. Board skills and experience appropriate. • Governance structure and practice aligned with good practices • Management structure, skills and succession planning appropriate for current and planned operations. Key person risk actively mitigated. Training and development needs identified and planned. • Business plan complete, relevant and feasible • Futuro's current and expected competitors and market positioning. • Futuro's current and planned branch network, other channels • Planned and achieved portfolio and product targets to date and into the future • Implications of products planned in the future (insurance, agricultural loans) and adequate treatment in the business plan • Alignment of loan origination process with product design, good practices and comparison to others in the market. • Comparative performance in terms of credit management to other like institutions in the region • Treatment of environment, social and governance risks (ESG), application of client protection principles (e.g. SPTF/Cerise Universal Standards) • Portfolio composition and quality (compared to similar institutions in Mozambique) and realistic alignment of Business Plan • Management information systems - responsiveness, alignment with regulations, reporting 	DR – including spot checks on client files IA KII

Evaluation Area	Key question	Points of Analysis	Source of information
		<ul style="list-style-type: none"> • Internal and External Audit – current and planned practices and accounting standards aligned with good practices • Operational and Financial cost structure and efficiency, how subsidies are reported, and impact on future projections • Operational and Finance performance • Capital adequacy – compliance with institutional needs and regulations • Regulatory requirements, compliance with them, expected changes and their potential impacts 	
Relevance	<ul style="list-style-type: none"> • Do the products and services offered by Futuro respond to the needs of the target groups (including price, outreach, etc)? • Is the approach taken by Futuro Mcb really responding to the key problems/challenges of access to finance of our target group? • To what extent is Futuro Mcb responding to national needs and priorities in relation to financial inclusion? 	<ul style="list-style-type: none"> • Comparison of current and planned products terms and conditions with expressed needs of existing and former men, women and youth clients • Comparison of marketing messages and channels to felt needs and informational sources of current and former men, women and youth clients • Challenges felt by target group in accessing and using services • Comparison of gaps in supply of microfinance (target markets/clients) to existing services • Current trends in financial products and services (e.g. increasing mobile options for accessing financial services) and responsiveness of Futuro MCB to this evolution • Assessment of client feedback on satisfaction with Futuro MCB's services • Assessment of planned products and services and felt needs of the target market • Comparison of current operations and business plan to national financial inclusion strategy, green finance roadmap and other relevant national-level strategies. 	IA Focus Groups Discussions (FGDs)
Coherence	<p>Internal</p> <ul style="list-style-type: none"> • To what extent is the intervention compatible with other Swiss development cooperation interventions in northern Mozambique (consistency, complementarity and synergies)? • Are potential synergies and complementarities being realized/maximized? <p>External</p>	<ul style="list-style-type: none"> • Analysis of existing links - planned and expected performance • Analysis of program documents and reports from all Swiss Development Programming in or affecting Nampula, with focus on opportunities to link to Futuro's present or planned programming. • Analysis of existing development programming activity in Nampula (e.g. Agricultural programs of FTF Premier, SUSTENTA, FAO), business development programs (e.g. E4LP), financial sector development programs (E.g. IFAD's RFEP and WB Mais Oportunidades) to identify potential linkages to existing or planned operations of Futuro MCB • Analysis of recent reports (e.g. FTF Premier Financial Ecosystems Mapping, FSDMoç research) to identify potential opportunities and partners, and how they could be further explored. 	DR KII IA

Evaluation Area	Key question	Points of Analysis	Source of information
	<ul style="list-style-type: none"> •To what extent is the intervention compatible with interventions of other actors (bilateral and multilateral donors, private sector, UN, NGOs etc.) in the country and thematic field (complementarity and synergies). •Are potential synergies and complementarities being realized/maximized? 		
Effectiveness	<ul style="list-style-type: none"> • How did the intervention contribute to the results? Is it possible to demonstrate to what extent the changes can be attributed to Futuro Mcb and not to external factors? • To what extent have the planned results been achieved? • Which major factors have influenced the achievement or non-achievement of the expected results? • How have gender considerations been mainstreamed? 	<ul style="list-style-type: none"> • Comparison of planned and actual achievement of SDC project targets and outcomes and reasons for differences (e.g. macroeconomic changes, other unexpected internal or external factors). • Comparison of planned and actual achievement of Futuro MCB's business plan targets and activities and other strategic documents and reasons for differences. • Comparison of "success factors" within Futuro Mcb with actual SDC interventions to assess the extent to which the SDC support contributed to results • Analysis as to how gender is integrated into all foundational, strategic, operational documents of Futuro Mcb and the extent to which this integration is managed and monitored. Assessment of specific actions taken to address non-achievement of gender targets • Comparison of Futuro Mcb's social performance management (SPM) and environment, social and governance risk management (ESG) with good practices 	DR KII IA
Efficiency	<ul style="list-style-type: none"> • To what extent was the intervention implemented cost-efficiently and in a timely way? 	<ul style="list-style-type: none"> • Comparison on Futuro Mcb's efficiency and productivity indicators with national, regional and international benchmarks for similar institutions and against its business plan • Assessment of timing of planned and executed project activities • Analysis of cost/benefit of project activities and comparison to benchmarks where available 	DR KII
Impact	<ul style="list-style-type: none"> • Which positive, lasting effects and behavioral changes can be identified? • Which unexpected and unintended positive and negative (side) effects have occurred? • Is the monitoring system in place to track the impact of the development 	<ul style="list-style-type: none"> • Review of existing client data information and reports • Review of any external assessment/analysis of SPM or ESG indicators • Trend analysis of assets and income of client and ex-clients, and comparison by segment, gender • Comparative analysis of behavior as relates to social targets of the project by segment, gender 	FGD IA

Evaluation Area	Key question	Points of Analysis	Source of information
	intervention suitable in terms of its objective?	<ul style="list-style-type: none"> • Identification of unexpected outcomes and the extent to which they clients relate these outcomes to Futuro MCB's services • Gender-specific analysis to determine the extent to which vulnerabilities to GBV have been increased or decreased as a result of Futuro MCB's services 	
Sustainability	<ul style="list-style-type: none"> • What evidence is there that the achieved effects will continue after the end of SDC's Technical Assistance Package? • Which major factors might enhance the effects achieved or prevent them from continuing? • Can Futuro MCB and involved stakeholders continue the activity independently (technical capacity, financial resources, etc.)? • Which institutional, financial or technical measures could be implemented to increase the chances of the development intervention having a sustainable impact? 	<ul style="list-style-type: none"> • Analysis of government, management, risk management, staffing and other skills and structure data to determine dependence on SDC's support for current operations, and capacity to manage planned expansion. • Analysis of reasons behind any challenges in ensuring sufficient skills and risk management and the extent to which they are related to past SDC support • Analysis of financial resources (planned, existing, anticipated and required for the future) and the extent to which the Board and Management are able to ensure sufficient resources. • Gap analysis and comparison with existing opportunities for technical support/funding within the market from complementary projects • Analysis of remaining gaps, not fulfilled or potentially filled by other partners 	IA KII

Management response to the External Evaluation of Futuro MCB 2017 – 2022

Management Response

The Management Response (MR) states the position of the SDC on the recommendations of the External Evaluation of Futuro MCB 2017 – 2022. The MR provides a solid basis for strategic decision-making. The relevant stakeholders should be consulted.

Assessment of the evaluation

The evaluation was conducted by Ayani BV in accordance with international standards. The evaluation process was well managed and included close involvement of the SDC's reference group comprising the Head of Cooperation, the Head of Domain of the Economic Development and the NPO in charge of the Project.

The evaluators achieved the main objective, which was to determine the extent to which the technical support provided to Futuro by the Swiss Development Cooperation (SDC) from 2017 to 2023 has prepared Futuro to become a sustainable and impactful institution. SDC appreciates the comprehensiveness of the evaluation report and the sound analysis of key elements of SDC's performance in Futuro MCB, SA.

The report's analysis and resulting recommendations are considered to be useful for strengthening the strategic orientation of Futuro MCB, SA.

Main findings

This evaluation is important for SDC, and in particular for the Economic Development Portfolio, in the sense that it has not only helped to orient the preparation of the new phase (Phase 5), but also to understand that Futuro fills a clear market gap in the Northern Mozambique by providing financial services to young men and women and the economically disadvantaged. The Technical Assistance support provided to Futuro by SDC contributes to the successful implementation of Futuro business plan and is also aligned with Swiss Cooperation's targets.

In terms of impact, Futuro showed good impact to its clients over the years, responding to the problems experienced by the local population focused on the improvement of the livelihood of young men and women and the economically disadvantaged.

In terms of sustainability, the report mentions that the project is on a good path, with a solid Board of Directors (BoD) and a CEO, but it is still growing and starting to become profitable. On a medium to long term, Futuro will expand its operations to more rural areas, which means geographical expansion, expansion of agricultural financial services, and digitalization.

Among the recommendations, it is important to note the following:

Futuro MCB

- Strengthen BoD with local banking expertise and gender balance;
- Urgently recruit a successor for the CEO;
- Improve internal audit and risk management functions;
- Increase focus on savings mobilization and digitalization.

SDC

- Continue capacity-building support, focusing on digital transformation and ESG certification.
- Support the procurement of a new core banking software.

Out of the five (5) recommendations, 4 are ‘fully agreed’ (green) and 1 are ‘partially agreed’ (orange) as described in the table below. The SDC agrees to seize this opportunity to improve its results by taking specific measures in line with the recommendation.

1. Continue to support Futuro with capacity building, but there is no need to continue to subsidize management costs. The proposed technical support plan is well aligned with its needs.			
2. The current approach of introducing and sharing information between Futuro and other projects is appropriate. Futuro will not always be in a position to respond, but it also provides an opportunity to plan for responding better to these projects in the future.			
3. Consider supporting the procurement of a new core banking software.			
4. As needed, consider supporting Futuro's efforts to achieve certification in Ce-ri-se/SPTF principles.			
5. Consider providing capacity building as needed to the planned Risk function to develop and oversee a comprehensive risk management system.			
Fully agree	Partially agree	Disagree	

Overview of recommendations, management response and measures

Recommendation 1		
Continue to support Futuro with capacity building, but there is no need to continue to subsidize management costs. The proposed technical support plan is well aligned with its needs.		
Management response		
Fully agree	Partially agree	Disagree
Partially agree. SDC has already withdrawn its subsidy for the management costs. Currently SDC is financing a Technical Assistance in order the bank to develop their internal capacity building and internal controls.		
Measures	Responsibility	Timing
a) Management Salary subsidy.	<u>SDC</u>	<u>Immediate</u>
b) Support of Capacity Building with the approval of a new CP Phase.	<u>SDC</u>	<u>2024-2027</u>

Recommendation 2		
The current approach of introducing and sharing information between Futuro and other projects is appropriate. Futuro will not always be in a position to respond, but it also provides an opportunity to plan for responding better to these projects in the future.		
Management response		
Fully agree	Partially agree	Disagree
Agree. SDC creates the link between the projects, but doesn't force them to work together.		
Measures	Responsibility	Timing
a) Introduction of Futuro and other projects	<u>SDC</u>	<u>Immediate</u>

Recommendation 3		
Consider supporting the procurement of a new core banking software.		
Management response		
Fully agree	Partially agree	Disagree
Agree. The current core banking software needs updates to be able to evolve with the growth of the bank. Currently Futuro is testing a new core banking system "Kredits".		
Measures	Responsibility	Timing
a) Acquire a new core banking system.	<u>Futuro</u>	<u>2024-2025</u>

Recommendation 4		
As needed, consider supporting Futuro's efforts to achieve certification in Cerise/SPTF principles.		
Management response		
Fully agree	Partially agree	Disagree
Partially Agree. Futuro is a microfinance institution that provides financial services to MSMEs. Obtaining client protection certification from Cerise and the Social Performance Task Force (SPTF) will enhance credibility and trust among clients and partners. Although this certification is not mandatory by the regulator, and some financial institutions operate without it, relying instead on internal procedures to address ethical practices and client welfare, it would serve as a differentiator in the financial market.		
Measures	Responsibility	Timing
a) Application for client protection certification from Cerise and the Social Performance Task Force (SPTF) from the TA contribution from SDC.	<u>Futuro</u>	<u>2024-2027</u>

Recommendation 5		
Consider providing capacity building as needed to the planned Risk function to develop and oversee a comprehensive risk management system.		
Management response		
Fully agree	Partially agree	Disagree
Improving the Risk Management Policy and System will ensure a high portfolio quality. This will enable the bank to effectively manage potential risks by utilizing advanced assessment tools and leveraging specialized expertise.		
Measures	Responsibility	Timing
a) Develop Risk Management Policy and System	<u>Futuro</u>	2024-2025