Small and medium enterprises in access to Bank credit in Mozambique

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Challenges and Perspectives for Survival.

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Abstract

SMEs have a very important role towards society, being responsible for the production of a large part of the total goods and services, but also for stimulating competition, introducing innovative methods and for their importance in employability. In Mozambique, the credit capacity of SMEs is quite weak as the results point to the lack of organized accounting, insufficient collateral, reduced bargaining power, weak business management skills, and weaknesses in structuring business plans are challenges for SMEs to access bank financing. The main difficulty in applying for credit by companies is the existence of unattractive and uncompetitive rates and fees. The biggest problem related to accessing bank credit is the prohibitive collateral requirements and the problem of structural deficiencies, which cripple the economy.

key words: **Small and medium enterprises; Lending; Credit; Bank**.

Introdution

SME[2] stands for small and medium-sized enterprise. It is an acronym used to classify companies with different criteria from large companies. Criteria such as the number of people employed, turnover, and annual balance sheet total. The criterion of the number of people employed, is considered the main criterion, but the other financial criteria are a necessary complement in order to understand the importance of a company and its performance. Freitas (2015)

Company - legal entity (natural and legal person) corresponding to an organizational unit of production of services, enjoying a certain autonomy of decision, particularly with regard to the allocation of its current resources. A company carries out one or more activities, in one or more locations.

Qualitative characteristics of SMEs

Quantitative characteristics

KAUFMANN (2016), considers that the definition of small and medium enterprises is made according to the level of their development and the policy objectives for the facilitation of small

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[2] small and medium-sized enterprise (SME).

and medium enterprises within the boundaries of a given country or a given national economy. Enterprises vary considerably, both in size and structure, depending on the level of development of a national economy. Thus, it will be important to develop an appropriate definition in order to be able to define "SME" policies (HAUSER 2005; VANDENBERG, 2005). Internationally, the size of a company is often defined based on the number of employees or revenue, but it can also be based on capital employed or market share for example, but the notion of company size needs to be critically addressed (). The size and structure of firms in industrialized and developing countries are not comparable. Nor is there a relationship or an ideal standard.

For the author, in Mozambique there are still different definitions of company size. For example: The National Institute of Statistics (INE) considers a small enterprise to be one that employs between 1 and 9 workers, and a medium-sized enterprise to be one that employs between 10 and 99 workers. Ministries and institutions also use other definitions or limits to define policies, for example in laws and decrees.

To carry out the research, a conceptual debate was held, a literature review was performed with the objective of understanding the difficulties SMEs have in accessing bank financing, and the hypothetical-deductive and historical-comparative methods were used, aided with documentary and literature review techniques. The literature approach consulted, the conceptual discussion evidences the purpose that the concession of bank credit to Small and Medium Enterprises had several implications in the expansion and development.

Classification of Micro, Small and Medium Enterprises

According to Decree 44/2011 of September 21, it is considered:

- Micro Company when the number of workers and the turnover does not exceed four workers and one million two hundred thousand meticais; - Small Company when the number of workers varies from five to nine and the annual turnover and greater than one million two hundred thousand and less than or equal to fourteen million seven hundred thousand meticais; - Medium-sized when the number of workers varies from fifty to one hundred and the annual turnover is higher than fourteen million seven hundred thousand Meticais and less than or equal to twenty-nine million nine hundred and seventy thousand Meticais, as illustrated in the table below.

Table 1 -Classification of SMEs

Classification	Number of workers	Turnover in Mzn
Medium Business	1 a 4	<1,200.000.00
Small business	5 a 49	1,200.000.00≤ 14,700.000.00
Micro enterprise	50 a 100	14,700.000.00≤ 29,970.000.00

Small and medium enterprise - economic unit with less than 100 employees or still with a turnover of less than 30,000,000.00Mt.

The data indicate that SMEs, especially micro-enterprises, are the predominant business units. Although they constitute a dominant part of SMEs in business, their impact on formal employment is marginal: only 1.3% of the country's existing labor force, or 129,225, are employed by 28,474 SMEs. This figure is much lower than the number of jobs made available.

With regard to the commercial sector, EDPMEs (2007), points out that the SME sector, trade is the dominant activity, followed by the hospitality and processing (manufacturing) industry. An important characteristic of SMEs is the large concentration of firms in trade. Indeed, the concentration of firms in trade activities in the large enterprise sector is observed. Trade accounts for 57.4%, or 16,357 firms, of the total number in the SME sector as a whole. The accommodation sector constitutes 20.2% (5,793) and manufacturing totals 9.9% (2,828). Agriculture accounts for only 2.17% (617).

Building Markets (2016, p.3), recognizes that Small and Medium Enterprises (SMEs) play an important role in Mozambique's economic development. According to government statistics, SMEs constitute 98.7% of all active businesses, providing the vast majority of employment opportunities in the country. Therefore, it is imperative that they are nurtured properly to ensure that they contribute significantly to national development.

According to KAUFMANN (2016, p.3, The micro, small and medium enterprises (MSMEs) sector is an important contributor and an indispensable segment to economic and social development. In many countries, over the past decades, the sector has been the main driver of growth, forms networks and value chains with large companies and is seen as a driver of employment, production and exports. In developing countries, these companies are also seen as an important instrument for poverty eradication.

For KAUFMANN (2016), The processes of globalization and the computerization of the economy provide a better opportunity for the growth of the economy of developing countries. But, despite the growth, new challenges also appear, such as:

- the unequal distribution of income and wealth,

- poverty, - basic social security conditions, and

- unemployment in large sectors of the population.

Therefore, it is necessary to consolidate economic reforms in line with the issue of social equity and inclusion (PIKETTY, 2014) and thus the prosperity of MSMEs.

Strategy for the Development of SMEs (EDPMEs, 2007), approved in August 2007, recognizes that Small, Medium-sized Enterprises (SMEs) are at the heart of a country's development, as they contribute to job creation, stimulate and provide products, thus increasing the competitiveness of the economy. However, the current level of SMEs' contribution does not meet the expectations initially anticipated.

KAUFMANN (2016), considers that for Mozambique to achieve its social and economic goals, the MSME sector - in addition to mega projects - must become one of the main contributors to the country's economy. Over the past decade increasing attention has been devoted to the sector, culminating with the drafting of the MSME Statute and the first five-year strategic plan prepared in 2007.

The author points the MSME Development Strategy (2007-2012) from seven main constraints:

- Regulatory barriers

- Lack of access to financing

- Low qualification of the workforce

- High tax burden and cost of procedures

- Poor access to markets

- Lack of horizontal and vertical connections between companies

- Lack of entrepreneurial spirit

The author argues that as a driver for the implementation of the Strategy, the Government created the Institute for the Promotion of Small and Medium Enterprises (IPEME) through Decree No. 47/2008, December 3, as the public entity that has the responsibility not only to ensure the implementation of the Strategy for the Development of MSMEs, but also actions to promote and boost MSMEs.

For Kaufmann (2016), the statutory attributions of IPEME, as a public institution, not only energize its vision "To be the institutional platform for the promotion of micro, small and medium enterprises in Mozambique" and its mission "To encourage the establishment, consolidation and development of micro, small and medium enterprises", but also invoke the values "Excellence, Ethics, Assistance, Efficiency, Competitiveness, Entrepreneurship, Partnership".

Table 2- Comparison between large and SMEs

Large Organizations	Small and Medium-sized Organizations
It has a hierarchy with different levels of decision	**Few levels of hierarchy**
Clear functional division of activities. High degree of specialization.	Division of activities not clear and limited. Low degree of specialization
High degree of formalization and standardization	Low degree of formalization and standardization
Bureaucratic	Orgânic
Cultural diversity	Uniform culture
Systems dominated	Dominated by people
It has many interest groups	It has few interest groups.
Dominated by professionals and technocrats	Dominated by entrepreneurs and pioneers
Ample human, financial and technical capital	Modest human, financial and technical capital.
Training and personal development are more likely to be planned and on a large scale	Training and personal development are more likely to be ad-hoc and on a smaller scale

It has a specific training budget.	There is no budget for training.
It has extensive external contacts.	Results oriented.
High degree of resistance to change.	Low external contacts
Control oriented.	No resistance to change
The rigid corporate culture dominates operations and behavior.	The operations and behavior of employees are influenced by owners and managers.

Comparison between large and SMEs (Ghobbadian and Gallear, 1997).

SME Development in Mozambique

Nurturing SMEs requires the involvement of a wide range of stakeholders working together, but with each playing a unique role in addressing the development needs faced by SMEs in Mozambique. Such an ecosystem brings together the following primary groups, which are discussed below, each in turn. a) Policy makers and regulators- The role of the government of Mozambique and its agencies is to create an enabling environment for SMEs to develop. This largely relates to enacting laws and regulations that promote SME development and repealing those that hinder or stand in the way of SME growth. Institute for the Promotion of Small and Medium Enterprises (IPEME) is the government agency that advocates, promotes, and advocates on behalf of SMEs in Mozambique. Its mission is to encourage the creation, consolidation and development of Micro, Small and Medium Enterprises in Mozambique. Among others, IPEME advocates, coordinated and limited, provides capacity building, access to markets, and access to finance in support of SMEs in the country. BUILDING MARKET (2016)

For KAUFMANN (2016), The central bank of Mozambique also plays a crucial role in SME financing by advocating for easier access to finance, by SMEs in the country. Among others, the central bank drives the financial inclusion agenda, which aims to extend access to finance, to previously unreached segments in Mozambique. In addition, it encourages the development of financial products that meet the needs of SMEs in the country, and financial support channels from development partners to local SMEs through local financial institutions. This includes special lines of credit and guarantees for SMEs.

Risk underwriters, such as credit guarantee providers and insurance companies, who help prevent risks in order to improve the credit risk profiles of SMEs. b). Financial service providers- the financial sector in Mozambique performs indispensable functions such as enabling savings and investment and providing risk protection, which ultimately support SME growth and new job creation. Key participants in this sector include commercial banks, microcredit institutions, investment funds, and insurance companies. KAUFMANN (2016)

Vulnerability of small businesses in accessing trade finance

According to the World Bank (2013), the number of commercial banks in Mozambique has increased from 12 in 2007 to 19 in 2016. This stimulates competition and is good for customers, including SMEs. However, commercial banks in Mozambique are mainly focused on urban areas and salaried individuals, government business, and large corporate clients. However, banks have recently become much more active for lending to the SME sector. Despite this, more needs to be done to increase awareness of this sector by banks.

Small and medium-sized enterprises (SMEs, i.e. companies defined as employing 250 workers or less) constitute the vast majority of registered businesses in both developed and developing countries. Their role in economic activity, generating growth and innovation, cannot be overstated. According to the World Bank, SMEs contribute to more than 60 percent of total employment in developed countries and 80 percent in developing countries, including the informal sector (World Bank, 2013). Moreover, according to data from the Organization for Economic Cooperation and Development (OECD), SMEs account for 40% of exports in OECD countries, and a somewhat smaller share in developing countries, where the concentration of exports is higher among the largest firms. WORLD BANK(2013).

Recent research suggests that the absence of or poor access to finance can strongly inhibit formal SME development, regardless of countries' per capita income levels. Market failures, notably in financial markets (whether financial crises or "information asymmetries"), fall disproportionately on SMEs, resulting in more credit rationing, higher "screening" costs, and higher bank interest rates than larger firms (Stiglitz and Weiss, 1981; Beck and Demirgüç-Kunt, 2006).

In less capital intensive or less developed economies, or in economies with lower savings rates, local banks are even more conservative in supporting exporters and importers in developing countries. In developing countries, local banks may not have the capacity, expertise, regulatory environment, international network, and/or foreign currency to provide import and export related financing. Similarly, traders may not be aware of the products available or how to use them efficiently. Other obstacles in developing countries include bank or country risk, particularly in the context of regional and global financial crises.

Exports from Asian countries, particularly during the Asian financial crisis, suffered from contagion from regional financial crises, in some cases causing import and export disruptions due to the lack of confidence of confirming banks in letters of credit issued in crisis countries (WTO, 2004). More recently, exports from sub-Saharan and other low-income countries have been particularly financially distressed because they are more dependent on bank-mediated financing than other regions (German Development Institute, 2015).

According to KAUFMANN (2016), As a result of the establishment of a series of mega projects, based on the exploitation of natural resources without much connection to the national economy, the contribution of MSMEs to the Mozambican economy is still relatively low. These projects have revealed the lack of competitiveness of the MSME sector, with few companies able to offer products and services as required, resulting in the loss of significant potential business volumes to foreign competitors or their imports. Given this reality, there is an urgent need to create new businesses and jobs and make existing small and medium-sized enterprises more competitive.

The author believes that the growth of a competitive and healthy MSME sector is therefore a key priority for the country, from both a microeconomic and macroeconomic perspective. This growth will be maximized when there is a strong entrepreneurial culture at all levels of society, continued growth in the number of competitive firms, and an economic and social environment that supports this development. These are the general key areas for policy development.

For EDPMEs (2007), The analysis of the SME business environment shows that there are a number of obstacles that impede SME growth, namely: (1) excessive regulatory barriers, (2) the high cost of financing and limited financial resources, (3) poor labor skills, (4) an excessive tax burden and high cost of paying taxes, (5) poor access to markets, (6) lack of horizontal and vertical links between companies, and (7) low entrepreneurial spirit.

The document in reference further admits that for revitalizing the SME sector, the following strategic vectors are defined: (1) improving the business environment, (2) building technological and management capacity, and (3) developing strategic support for SMEs. The vectors are supported by action plans that will facilitate the implementation of the Strategy:

- Actions aimed at improving the business environment : (1) The introduction of a negative license system; (2) The creation of a simplified inspection environment; (3) The introduction of a credit guarantee system; (4) The implementation of a leasing system; (5) Encouraging the operation of investment fund lenders; (6) Encouraging banks' efforts to increase financing and other services to SMEs; (7) Encouraging banks to strengthen linkages and networks with rural credit and micro-credit institutions; (8) Providing government credit for refinancing rural credit and micro-credit institutions; (9) Studies on the tax regime and creating a sound tax infrastructure; (10) Increasing market size by promoting exports and government procurement; (11) Improving the flow of information on markets; (12) Promoting the SME niche; and (13) Creating a business environment that encourages entrepreneurship. (EDPM, 2017).

Strategies for SME development in Mozambique

SMEs play a vital role in the national economy. The importance of SMEs to a nation's economy has four dimensions:

First: SMEs generate employment. Assuming that a large firm and a small firm produce the same item at the same value, the large firm has the characteristic of being capital intensive, while the small firm is labor intensive. This implies that SMEs offer greater employment opportunities to a country's workforce, unlike large enterprises. (EDPM, 2017)

Second: SMEs are crucial to a country's competitiveness. They encourage competition and production and inspire innovation and entrepreneurship. SMEs are inherently market-driven, seeking to capture business opportunities created by market demand. The relatively lower barrier of entry to markets and the nimble nature of the decision-making structure encourages competition which, in turn, promotes SME competitiveness. Strong and competitive SMEs become strong and competitive large firms, which can be translated into national competitiveness as a whole.

Third: SMEs diversify activities, stimulate innovation and creativity. SMEs diversify economic activities by offering products and services that the market demands at a given time, thus making available new lines of products and services that have not yet been introduced in the market. In this way, SMEs stimulate innovation and creativity.

Fourth: SMEs mobilize social and economic resources. SMEs are the social actors that mobilize national social and economic resources that have not yet been tapped. Hence the key role played by SMEs in the socio-economic development of countries.

Quantitative characteristics of SMEs

For KAUFMANN (2016), p.1, quantitative characteristics are what best distinguish the small from the medium-sized enterprise. An SME is fundamentally characterized by a strong readiness to face risk, market flexibility and performance. There is a direct interaction relationship between the manager and the company, i.e. the manager is usually the owner of the company himself. All vital organizational decisions and the functioning of the company are the responsibility of the owner himself. In an SME, the relations between the employees and the employer are of a personal and direct nature. The economic consequences of qualitative characteristics are often reflected in the choice of legal forms, the management of financing, innovation activities, and local political activity, e.g. constituencies. For practical purposes, qualitative characteristics are often more important than quantitative ones. Size itself does not explain everything about the company, because everything depends on the sector and the level of development of the economy and other dominant structures. KAUFMANN (2016, p.2)

SME Development Policy

According to ILO (2015) SME support policies are defined as public initiatives that promote existing firms below a certain size. SME support policies can directly or indirectly target particular enterprises. Examples of policies directly targeting SMEs are financial and non-financial support services, and the integration of SMEs into large producer networks or value chains. Indirect support often takes the form of interventions to promote an SME-friendly environment, e.g. simplification of registration formalities or tax regimes or differentiated labor legislation. The most commonly used instruments in SME support policies are credits, grants, technical assistance and tax incentives. SME programs are considered to be an integral part of the policies, as they allow an intervention to be implemented through an action plan in order to achieve a specific goal. The specific focus on SMEs is not an end in itself, but rather a means to generate growth, quality jobs and shared prosperity.

Policies to promote entrepreneurship are closely linked to policies to support SMEs and, in practical terms, are usually combined with each other. The main difference is that policies to promote entrepreneurship are generally aimed at individuals rather than existing businesses. Their main objective is to encourage more people to consider entrepreneurship as an option and to support the different stages of conception or gestation, start-up and post-start-up of the entrepreneurship process. Entrepreneurship promotion policies are often designed and implemented with the purpose of increasing the motivation and skills of individuals and the opportunities available (ILO 2015).

KRAUSE et al (2015), lists the main tasks of policies for the support of SMEs under the new international requirements:

- Policy to promote industrial structure: its aim is not to define and promote certain sectors as is often the case in developing countries (Roisin 2015, KRAUSE et al 2011). The state does not have much competence to do so. There can only be a follow-up in the creation of competitive industrial structures through the creation of SME nuclei and industrial networks. This means promoting the creation of networks between large industry and large companies, as well as other services, for a competence-oriented competitive environment. To this end the following aspects are of note:

a. Expansion of quality services offered by economic associations and aid organizations; b. An efficient public administration; c. Organizations to facilitate exports and linkages; d. Access to financial markets, to institutions dedicated to financing private enterprise and export operations (e.g., communities for credit guarantees); e. Advisory, technology transfer, and information infrastructures; f. Platforms to create network systems; g. Public-private partnerships.

- Infrastructure policy: physical infrastructure with corresponding energy provision, transport routes (exports) and communication systems need to be created to enable SMEs to reduce transaction costs and increase international competitiveness (e.g. GAZEDA). (Krause, et al 2015)

- Technology policy: in addition to technology transfer from industrialized countries (e.g.: import of appropriate technologies to SMEs in order to permanently develop the propitious innovative system, which takes into account the competitive advantages of the regional culture). It is desirable to intelligently push also an endogenous development (not only import) and create interfaces between research and small industry, improving the cooperation of universities with the economy. Idem (2015)

- Regional policy: regional competitiveness and special attention to regional production clusters should be based on their own strengths and rely on potential resources for endogenous development. Existing potentials are a starting point of a developing regional cluster. Special attention to SMEs makes it possible to avoid economic monocultures and to diversify better. In addition, it is convenient to include municipal and private actors, providing them with bottom-up growth that meets the needs of inter-regional cooperation. (Idem, 2015)

- Import policy: it is necessary to create an enabling environment for competitiveness in the internal market. Without embargoes and selective protection against imports, small industries in developing countries will not be able to sustain themselves or grow. On the other hand, it is necessary to create a certain adjustment pressure that facilitates adaptation and learning phases and does not cause a "shock" effect. It is preferable, in a first phase of SME development, to open free trade zones, with reciprocal advantages, between states that show a comparable level of development (SADC, Mercosur). On the other hand, an easy and cheap import system increases the competitiveness of domestic production by reducing costs. (Idem, 2015)

- Export policy: The official export policy should explicitly consider the potential of small and medium-sized enterprises and provide information about markets and their rules. For SMEs, it is necessary to develop export promotion activities jointly and integrate them with those activities that large private or public companies carry out. Networks of SMEs play an important role in promoting the exports of their members by facilitating linkages .(Idem, 2015)

- Judicial policy: Efficient and functional legal system is a fundamental condition for the division of labor in markets. It is SMEs that suffer from inefficient and non-functional judicial system in the first place (VANDENBERG, 2005). Without a sound judicial policy there can be no sound economic growth, as the lack of confidence in the legal system and the courts creates a situation of weakness in the system of protection of property, freedom of contracting and the impartiality of the system. (KRAUSE, et al 2015)

KAUFMANN et al (2016) believes that concretely, the government has an important role to play in building a thriving MSME sector through ongoing dialogue, economic policy in general and in particular, drafting appropriate laws and regulations, and building a supportive central, regional and local institutional infrastructure.

SME Oriented Policies.

According to KAUFMANN (2015), the creation of an appropriate legal regime, measures aimed at improving the financial situation, actual transfers and the creation of general conditions within which activities take place (...better ranking in Doing Business and implementation of EMANs). An "MSME-friendly" legal, regulatory and administrative environment could be characterized, among others, as one in which:

- Property rights are clearly recognized,

- Contracts are easily enforced,

- A simple, transparent and low-cost tax system is in place and is perceived as fair,

- Businesses are able to register with the relevant authorities through a simple and inexpensive system, preferably by remote access via the Internet,

- Business licensing requirements are minimized and, when applied, the aim is to protect the health and safety of consumers and labor, rather than to be a source of revenue for local and/or central government,

- Labor regulations are balanced and flexible, protecting worker and business rights equally,

- MSMEs' interaction with customs administration, whether in exporting or importing, takes place in a simplified, efficient, simple and transparent manner,

- Regulation of the financial sector (banking, insurance, leasing) recognizes the constraints of MSMEs and introduces the legal and regulatory instruments that allow MSMEs' commonly available assets to be used as collateral,

- Public administrators at the local level encourage entrepreneurs and recognize them as contributors to economic growth, treat them fairly and are committed to eradicating corruption. (Kaufmann (2016)

The job creation argument

KAUFMANN (2016) states that Mozambique faces the problem of capital shortages and a high level of unemployment. Given this reality, it is of interest to know to what extent small and medium enterprises can contribute to the creation of a greater number of competitive jobs with less costs compared to large enterprises.

In most developing countries, poverty results from the lack of a sustainable social security base and high levels of underemployment. To combat poverty and create greater deconcentration of income, it is necessary to stimulate a greater supply of internationally competitive jobs and the transition from the informal sector to legalized activity. New organizational forms of a modern sector of small and medium-sized service companies or the creation of new companies from existing ones can be the goal of a policy, centered on SMEs, focusing on growth with a positive impact on the labor market. It is clear that economic growth has a positive impact for job creation and poverty reduction and that SMEs play an important role in this context (Beck. et al. 2004, 2011).

Analysis of the financial environment

According to EDPMEs (2007, p.13), there are two types of financial institutions that SMEs can turn to: banks and non-bank financial institutions. Banks are the traditional source of financing for business activities. However, most SMEs, usually do not use bank credits as a source of financing due to the high cost and accessibility problem. Because of this phenomenon, non-financial institutions, such as funds and micro-credit institutions, are positioning themselves as the main sources of finance for SMEs, but with a limited scope.

The low level of domestic savings translates negatively into the supply of credit. Therefore, there is a need to stimulate the growth of savings in order to allow credit availability in the economy. As the economy begins to industrialize, the most important source of financing is the commercial banks. Therefore, the focus of the analyses here is on commercial banks. Financing is the biggest impediment to private enterprises, including SMEs Specifically, two major problems are the most notorious with respect to SME financing:

(i) High cost and lack of credit availability and (ii) Insufficient banking services.

Due to the high cost and limited accessibility to financing a company's operations, most SMEs do not attempt to contact commercial banks for credit. Entrepreneurs usually start their activities and make additional investments using exclusively their own capital, or by contacting informal sources of credit, such as family and friends. According to a study by the World Bank and the IFC, companies indicated that about 90% of working capital and 64.9% of new investments were financed by their own funds. In contrast, only 6.9% of working capital and 8.2% of new investments were financed by credits from local banks. This reveals the companies' poor access to bank credit. (ADB/OECD (2006): p394

Commercial Bank Financing Lines for SMEs

Excessive debt and low liquidity are the two main problems affecting domestic SMEs, either because sales have fallen or because there is greater difficulty in obtaining timely payments, forcing many companies to seek financing. Bank credit constitutes a very significant portion of the financing sought by SMEs in order to help in the development of their activities in the short, medium and long term needs (Myers, 1984), apud (Freitas , 2015). Banks and SMEs maintain an ambiguous relationship, that is, both need each other to grow, SMEs to obtain credit at less cost, that is, with more favorable rates, and banks to obtain gains from loans granted to SMEs. The banks provide more credit to companies with a greater ability to generate income, because they give them more guarantees to save the debt. However, it is the smaller firms with less ability to finance themselves internally that seek more credit.

Decision making regarding financing options and the potential financing entity is a crucial decision that requires thought. Banks have a high negotiating power, unlike the negotiating power of an SME, which is extremely low. The high commissions, the bureaucratic process, the guarantees required and the immense time for the credit to be granted in certain cases, becomes an unpleasant and time consuming process for the entrepreneur, sometimes motivating him to seek other sources of financing.(Freitas 2015, p.10).

For Oldemiro Belchior (2015), In Mozambique, the most significant part of entrepreneurial activity is financed directly or indirectly by the banking sector. The effectiveness of this partnership is essential for the economic and social development of the country. Any SME that needs bank support to develop its activity should make itself known with total transparency to its bank and should seek to better understand the parameters that condition the actions of its financier. It is also important to remember that banks play an essential role in the financing system of the economy, through the intermediation between those who save and those who invest or develop business, as well as in the transformation of the maturity of assets and liabilities. The difficulties in access to financing have been pointed out by the Mozambican private sector as one of the main obstacles to the development of business activity.

According to EDPMEs (2007), p.14, Access to bank credit is strongly dependent on the size of the company. Access for micro and small enterprises is very limited, while large enterprises do not seem to have many problems regarding access to bank credit. This implies that access to bank credit is possible for a small number of large and/or privileged companies.

For (EDPMEs (2007), p.14, the main difficulty in applying for credit by companies is the existence of unattractive and competitive rates and commissions. In 2005 the approximate interest rate on local currency loans, inflation and the commission paid for the loan was 20%, 7% and 5% respectively. This means that the interest rate on the loan would be close to 20% in real terms, which is very high by international standards. The high interest rates prevent small borrowers from being profitable and competitive.

The paper considers that the second biggest problem related to access to bank credit are the prohibitive collateral requirements and the problem of structural shortages, which devastate the economy. Their approximate proportions to the value of credit are 141% and 175% for small and medium-sized enterprises, respectively. Overall, however, many SMEs in particular do not have the collateral in their start-up phase that meets the qualifications for obtaining a credit. This collateral problem exacerbates the issue of SMEs' accessibility to bank loans. Thus, it is not surprising to find that most SMEs are "created out of personal savings or financed through informal savings schemes.

Insufficient Financial Services

Apart from financing, the primary role of banks is to provide banking services aimed at facilitating monetary transactions in the private sector. Among the services of banking are the acceptance of deposits and payments not in cash but through checks, credit cards, account-to-account transfers, etc. Services also include the facilitation of international trade. However, these services are not adequate enough to support business activities, especially in rural areas. About 70% of payments for business transactions are made in cash, a fact that reflects the reality of insufficient banking services. (FAD 2001).

The competitiveness of SMEs is affected by insufficient financial services because they do not have the means to supplement the lack of such services by themselves. This results in the slow growth of SMEs. The lack of banking services in rural areas also hinders their development.

Financing Alternatives for SMEs in Mozambique

Speaking at the meeting organized by the Mozambique Chamber of Commerce, AMB , Oldemiro Belchior clarified that the lack of organized accounting, insufficient collateral, reduced bargaining power, weak business management skills, and weaknesses in structuring business plans are challenges for SMEs to access bank financing. According to Belchior (2016), the most significant part of business activity is financed by the banking sector in Mozambique, and the effectiveness of this partnership is essential for the economic and social development of the country.

In the case of FECOP , as in other special lines, access to bank financing is fundamentally based on three central pillars: business suitability, creditworthiness of the borrower, and organized accounting. Belchior believes that for "a company that acts with ethics and transparency, demonstrating financial capacity to repay the loan, and presents reliable accounting information, can easily benefit from bank credit," he stressed. For her part, Madina Ismael of IPEME said that her institution has in the City and Province of Maputo, as well as in various parts of the country, Business Support Centers to empower Mozambican Micro, Small and Medium Enterprises. For

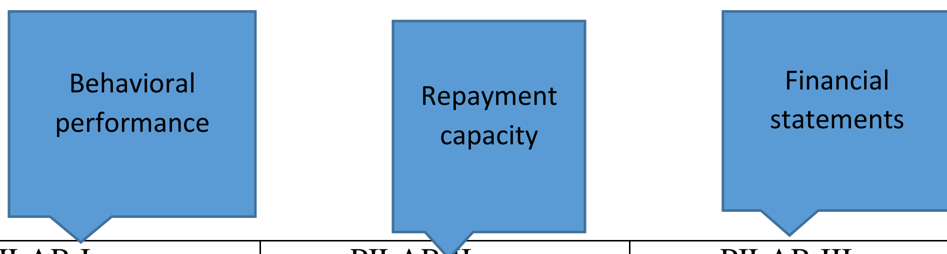
Luísa Diogo (2016), moderator of the debate between the Banks, the IPEME, and the entrepreneurs, the FECOP is a very important financing line for SMEs because it brings attractive conditions for those who want to start a business and change their lives, while also changing the lives of millions of Mozambicans and causing a change in the economic life of a whole country.

The pillars of access to financing for small and medium enterprises in Mozambique

-Corporate Identity Figure1

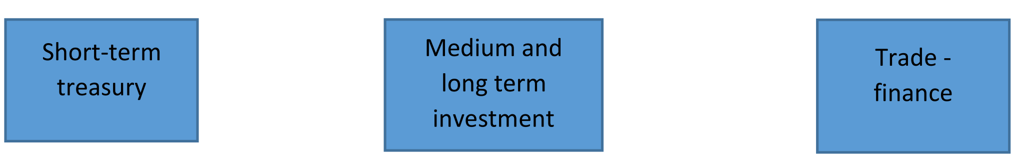
-Creditworthiness

-Organized accounting



PILAR I	PILAR II	PILAR III
Business suitability	Creditworthiness	Organized accounting
ethic	Cash flaw	Swing
Conduct	Liquidity	Income account
Transparency	Debt service	Reliability

Financing solutions-banking-company-Treasury, Investment, Trade-finance**.**



Financial products	Financial solutions	Subscription credit
Authorized discovery	-Leasing furniture	-Documentary credit
Secured current account	-Leaseback, - MLP loans	Banking guarantees
-Discovery of promissory notes -Factoring, confirming	- Real estate leasing	Money orders (THE FEET)

Linhas de crédito para apoio ás PMEs. Principais vantagens

Factoring -Reduces administrative costs -Presses collections -Actuates credit risk	MLP Loans - Refund flexibility - Early amortization Different repayments-periodicity

Leasing -Lower monthly payments -Flexibility of conditions -Possibility to purchase the asset	Documentary credit -Favors the increase in purchases abroad (importer) -Enlargement of the receiving period (exporter).

Leaseback -Lower monthly payments Flexibility of conditions -Does not require additional guarantees	Banking guarantees -Less costly cost -Level of reduced counter-guarantee requirement.

Fonte: PMEs-Oldemiro Belchior

Large depositors demand high interest rates in the market, a factor that is reflected in the average cost of mobilization. The risk implicit in the operation contributes to the formulation of the final loan price. The worse the risk rating, the higher the interest rate.

Introducing a credit guarantee system

It is extremely difficult for an SME, even with a profitable project, to obtain a loan, since SMEs in general, and start-ups in particular, do not possess assets valuable enough to qualify as collateral. A credit guarantee would play a vital role in bridging the gap between a profitable project and the unavailability of financing. To mitigate such situations, many countries have credit guarantee institutions to increase SMEs' accessibility to finance. (EDPME(2016, P.40).

Barriers to SME Financing by Commercial Banks

According to Building Markets (2016, p.15) the reasons why commercial banks in Mozambique have traditionally prevented lending to SMEs are highlighted in the factors below: i) Banks can often earn high returns in their markets and have little incentive to service the SME market which typically carries higher risk. ii) Banks incur higher administrative costs for lending to SMEs as the loan amounts are small and transaction costs per loan are relatively constant. iii) Banks have limited information, skills and regulatory support to assist in lending to SMEs.

Building Markets (2016, p.15), further considers that SMEs generally have little or no accurate financial statements about their revenues, profits and ability to pay. Building Markets points out that in addition, there is a lack of general market data available for SMEs and in specific sub-sectors (e.g. information on default rates). iv) The lack of collateral for some borrowers and/or specific legislation (e.g. ability to claim collateral) complicates the possibilities for making collateral-based loans. v) Banks may lack specific skills to assess the creditworthiness of SMEs and therefore ask for higher rates and collateral requirements. The lack of such skills may lead banks to drive SMEs away from the markets in their entirety.

For Correia (2018,) states that banks make it difficult to lend to new and even existing SME(s) because they are too opaque. Companies are so named due to a lack of circulation between agents, respectively regarding the non-availability of complete information, that is, they do not provide information about the owners, do not have a history of activity (especially in the case of new companies), existing a reduced capacity to demonstrate the possible success of the project, thus hindering its analysis. Thus, granting credit to these companies involves a greater risk on the part of banks, leading them to charge higher interest rates and demand guarantees, Bonfim and Dai (2012). Matias (2009) apud Correia (2018,p.1), understand that SMEs(s) are opaque, because they do not transmit to investors complete information in accounting, as is part of the accounting practices of a large company, that is, as the author states "given the freedom of "construction" of accounting information, rarely audited and unnoticed (by rating agencies) and with multiple schemes of presentation of accounts" making it difficult to finance an SME.

SME Financing Gaps

Building Markets (2016,p.16), finds that a variety of financial institutions are providing solutions to better serve the SME sector and expand financing for them. Through engagement, large national and multinational banks have the experience, reputation, and geographic reach to significantly impact and change the way domestic markets operate. These large companies are using increasingly deliberate strategies to expand economic opportunities through business models that serve poor individuals and SMEs. They include: a. Partnering with partial guarantee scheme providers to share risk. b. Engaging in human capital development activities and financial literacy programs for individual clients and business management training for SMEs. c. Institutional capacity building with other businesses involved in SME work, such as NGOs, development agencies, microfinance institutions, social entrepreneurs, business associations, impact funds, etc.

The research reports that Mozambican SMEs also play a role in filling the financing gap. a. SMEs should take advantage of opportunities to build capacity by participating in the business and financial management trainings and financial literacy seminars that are offered by banks and partner organizations. b. SMEs should use the knowledge gained during the trainings to improve business financial accounting and record keeping that will make it easier for lending institutions to process future loans.

The survey also adds that SMEs should prioritize formalizing their business through registration. According to banks, an organized company is one that is able to generate reliable financial records. The bank begins the SME-bank relationship by first opening a deposit account for the company. This allows the bank to monitor the company's cash flows, which are used to determine the creditworthiness of the company as a potential debtor. Based on past bank records and receipts obtained from the company, the bank acts as a financial advisor, helping the company with the (re)construction of its financial statements. Building Markets (2016, p.16

Commercial banking sector

According to the Bank of Mozambique, the number of commercial banks in Mozambique has increased from 12 in 2007 to 19 in 2016. This stimulates competition and is good for customers, including SMEs. However, commercial banks in Mozambique are mainly focused on urban areas and salaried individuals, government business, and large corporate clients. However, banks have recently become much more active for lending to the SME sector. Despite this, more needs to be done to increase awareness of this sector by banks. (WB, apud.(Building Markets (2016).

The research under review understands that the microfinance sector according to the Bank of Mozambique, the microfinance sector in Mozambique has over 300 institutions, although the vast majority are not active. There are also two commercial banks that target the microfinance sector, Socremo and Bank Opportunity. According to the central bank registry, microfinance institutions (MFIs) include 10 micro banks, 8 credit cooperatives, 12 savings and loans organizations, and 285 microcredit operators, which include cooperatives and community-based organizations, such as rural finance associations and Credit Cooperative Associations (ASCAs)[3], known in Mozambique as revolving credit and savings groups). Like the traditional banking sector, the microfinance sector is concentrated in a few institutions. The 4 commercial banks operating in the sector make

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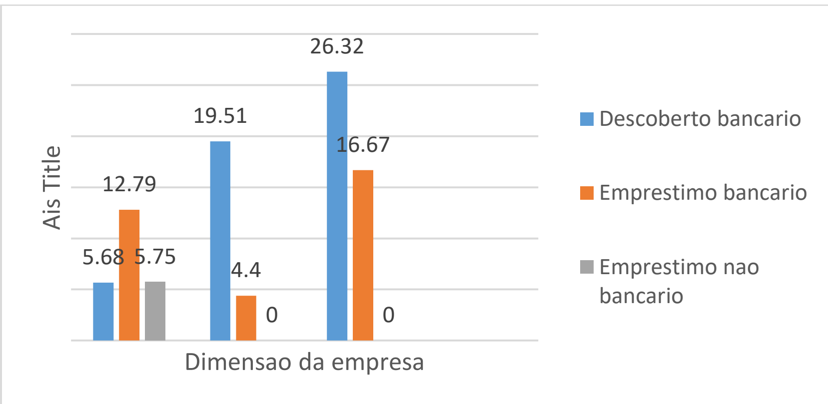
[3] Credit Cooperative Associations (ASCAS).

larger loans to fewer clients. The institutions that are concentrated at the lower end of the market serve the majority of customers, i.e. ASCAs, which account for 46% of active customers.(Buiding Markets (2016).

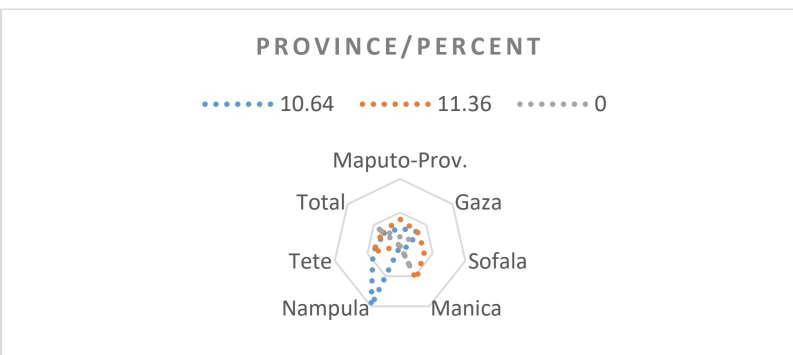
Bank Lending Interest Rate.

According to the (AMB, 2015), Some financial analysts in the Mozambican market, argue that "the Central Bank's lending is not the main source of commercial banks' resources for lending to the economy. The main source is customer deposits, and the average cost of these deposits is not keeping up with the rate of the Permanent Cedance Facility...". On the other hand, there are opinions that argue that the high cost of bank funding is associated with credit risk. In short, one can consider that the determination of the interest rate of a loan depends essentially on two factors: the funding cost (cost of raising funds in the market, having customer deposits as the main source); the risk (the better the customer's risk rating, the lower the spread applied to the interest rate). The Spread is the financial gain obtained by banks from the loans they make (lending operations).

Use of financial instruments in percentages by Province.



Percentages by Province



According to (IIM-2017) , In 2017, on average, 13.3% of SMEs had a bank loan, compared to 12.6% that had an overdraft and 3.4% that had a non-bank loan.

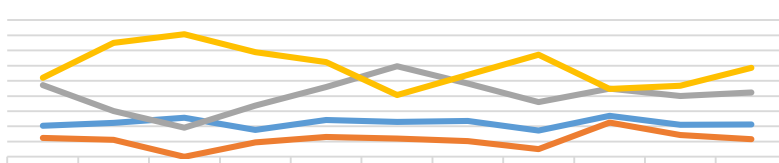
Among firms that took out a bank loan or a non-bank loan, only 19 and 5, respectively, reported the amounts borrowed and interest rates paid. Generally, non-bank loans are small, with little or no interest, while bank loans are somewhat higher (the median being MZN 150,000. Interest rates on bank loans are generally high (25-30%), which was also stated by some business owners as a reason not to apply for a bank loan.

Credit Restrictions

In this subsection, we apply two definitions of credit constraints inspired by Byiers et al. (2010). In the first definition, a firm is credit constrained if it applied for credit but was refused. The second definition considers self-selection, expanding the credit constraint measure to include firms that consider themselves in need of a loan but have been turned down, those that found the procedure too complicated or too strict, or refrained from applying due to corruption. (IIM, 2017).

The graph, includes the proportion of firms, in the three size categories, that applied for credit, were restricted by the two definitions and showed demand for the loan. In the first column, it is apparent that the proportion of firms that applied for credit, between 20 and 26 percent, did not differ significantly between business dimensions. However, smaller firms faced greater credit constraints than larger firms. None of the medium-sized firms had a credit application denied, while the figures for small and micro firms were 11 and 12 percent, respectively. In the second, broader definition, where self-selection is considered, almost half of the sampled micro-firms can be considered as facing credit constraints. (IIM, 2017).

Credit constraint by firm size and province in percent.



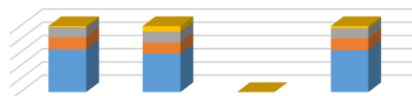
	Micro	Pequenas	Medias	Maputo-cidade	Maputo-prov.	Gaza	Sofala	Manica	Nampula	Tete	Total
pediram emprestimo	20.42	22.33	25.75	17.73	24.29	22.92	23.53	17.14	26.92	21.05	21.31
com restritiçao1	12.39	11.11	0	9.38	13.11	11.9	10.34	4.92	22.45	14.29	11.45
com restriçao2	47.26	30	19.23	33.59	45.9	59.52	48.28	36.07	44.9	40	42.33
Demanda de credito	51.97	75	80.77	68.97	62.26	40.54	53.85	67.24	44.74	46.67	58.54

pediram emprestimo com restritiçao1 com restriçao2 Demanda de credito

Source: (IIM2017).

According to the chart, the most common reason for rejection was lack of bank guarantees (about 70%) for both micro and small enterprises. Incompleteness of the application and lack of viability accounted for about a fifth of the rejections, while a poor credit history only applied to 10% of small businesses and 2.3% of micro businesses that saw an application rejected

Reason for loan application rejection as a percentage
Source: (IIM 2017)



	Micro	Pequenas	Médias	Total
Fraco histórico de crédito	2.33	10	0	3.77
Projeto considerado inviável	16.28	20	0	16.98
Candidatura incompleta	20.93	20	0	20.75
Falta de garantias	72.09	70	0	71.7

In addition, bank collateral requirements are generally stringent, so applicants usually need to own a house or something of similar value before they can get a loan. In addition, many companies complained about having to submit many documents during the process, which was perceived as a hassle. Finally, small and micro businesses often did not know where to go or what to do to get a loan, and large businesses were generally not interested in getting a bank loan due to high interest rates of around 25%. Of the 410 companies that did not apply for a bank loan, 53% stated that they did not need a loan, 22% that they did not meet the collateral requirements, and 9% found the procedures too complicated. (IIM 2017,p.23).

Final Considerations

Small and medium-sized enterprises contribute very significantly to job and income creation, accounting for two-thirds of employment worldwide. The results show that SMEs account for a large share of employment in all countries, regardless of the countries' income level

SMEs remain heavily dependent on bank financing and face numerous difficulties in obtaining credit, especially after the financial crisis of 2008, which resulted in a further decline in turnover for this group of companies, preventing their growth or even threatening their survival. To overcome certain difficulties, companies resort to financing, and it is essential to know the various forms of financing available in the market in order to make the right decision.

Credit analysis to measure the risks of certain credits is necessary to collect, analyze and monitor operational information from companies, thus being an essential task to determine the credit risk. In the view of Schrikel, (1997), for any credit granting had, there are three distinct steps to go through. I. Retrospective - The first analysis that assesses the history of the prospective borrower, identifying the major types of risks in his activity and how these were circumvented in the past, and the current situation of the borrower may report any difficulties in meeting his obligations to the lender. II. Trends - the realization of a secure projection of the borrower's future financial condition, as well as the associated capacity to bear a certain level of onerous indebtedness. III. Creditworthiness - a consequence of the previous steps, the borrower must reach a conclusion regarding his creditworthiness and as a consequence the structuring of a proposal, in which the requested loan, or a series of future financings can be amortized and act with a future cash flow, in which the lender has the maximum protection against eventual losses.

Performing credit analysis requires from the professional the ability to make decisions, evaluating a scenario of uncertainties, analyzing the information in a rational way. (SCHRIKEL, 1997). Based on the literature approach consulted and the conceptual discussion, it is evident the purpose that the granting of bank credit to Small and Medium Enterprises has had several implications in the expansion and development.

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