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Risk Management and Financial Institutions in Mozambique

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Abstract

Credit, interest rate, foreign currency rate, liquidity, stock price, commodity price, legal, regulatory, reputational, and operational hazards are only some of the financial and non-financial risks faced by banks in the process of financial intermediation. Events that influence one risk category may have far-reaching consequences for a wide variety of others. The main aim of this study is to evaluate risk Management in a financial institution in Mozambique, examine risk Management of Islamic Terrorism in Mozambique and the contribution of digital financial services to financial inclusion in Mozambique.

***Keywords**: Financial Institutions, Banks, Credit, Interest, Risk Management*

1. Introduction

A company that is engaged in money handling business is called financial institutions. Deposits, loans, investments, and currency exchange are some of the activities of financial institutions. One of the most important aspects of financial institutions is that they incorporate a wide variety of business activities within the financial services industry (Epor Yua, & Nwakoby. 2023). To make financial markets run more smoothly, organizations like banks and credit unions were created for financial organizations. if savers and investors, buyers and sellers, were and or are able to identify each other easily, acquire any assets at no cost, and make their judgments based on publicly accessible flawless information, there would be no need for financial institutions. On the other hand, this is not reality. The ability of financial institutions to provide market knowledge, transaction efficiency, and contract enforcement is why market participants turn to them in real economies (Epor, Ibenta, Yua, & Ityavyar, 2023). As a result, they can work in two ways. Investors may either make their investments using their sources, or they can contract with them to get the same services from them as if they were doing it themselves. It is not uncommon for these same companies to provide investors with stock options and other financial products. Several challenges occur as a result of the two modes of operation available to financial organizations.

2. Literature Review

2.1 Risk Management in Financial Institutions

According to Hull, (2012) when it comes to risk management, deciding whether to utilize a centralized or decentralized strategy is crucial. Centralizing risk management by relying on combined exposure information, natural netting of exposures, and economies of scale is becoming more popular among businesses all around the world. The Board of Directors of a corporation should bear the bulk of the responsibility for identifying and managing the bank's risks. There should be an examination to determine the bank's willingness and ability to bear risk. There should be an independent risk management committee or executive committee that is made up of the company's senior executives and reports directly to the Board of Directors. according to Aloqab, (2018). Top-level committees aim to provide one group exclusive responsibility for assessing the bank's total risk and figuring out how much risk is in the bank's best interest. Line management should be held to a greater degree of responsibility for the bank's risks and performance as a result of the Committee's monitoring. Identifying and monitoring the bank's risk profile is the primary responsibility of the Risk Management Committee (RMC)." Policy and procedures should be developed as well as risk models that are reviewed when the market changes and new risks are identified by the Committee.

Accordingly, Bugalla, (2012) posit hat, bank's risk policies should outline the quantitative prudential limitations for each sector of its activities. International investors are increasingly limiting their exposure to risk by using portfolio criteria including Credit at Risk (credit risk), Earnings at Risk, and Value at Risk (market risk). They should create stress scenarios to see how portfolio value fluctuation differs from what is expected under normal market circumstances and from what is seen.

Jednak, (2013) stated that to hedge, organizations are motivated by financial limitations, which make them effectively risk-averse. Effective risk management is hindered by a lack of resources. Financially restricted businesses must choose between using their limited internal money for loans and risk management reasons, consequently, since both finance and risk management are hampered by the same restrictions. For both pledges to external financiers and hedging counterparties, collateral is necessary for their dynamic model since unencumbered collateral may be used to produce further cash loans or support derivatives positions related to risk management to support. According to Rasid,(2014) as a result of their methodology, smaller financial institutions are more likely to forgo risk management investments in favor of making loans with the little net worth they have available. Even while financial restrictions are the driving force behind risk management, they also serve as one of its most significant roadblocks. As a result, fewer financially restricted organizations would hedge more, which means that measurements of hedging and net worth are positively connected.

Laycock, (2014) stated that economic net worth is a critical endogenous state variable in the model because it affects whether or not institutions are financially limited and, thus, the magnitude of the tradeoff. Net worth is calculated by subtracting net operating income from total assets, then adding back any hedging claims that have been paid out. 10 More capital (assets or loans) is deployed (higher net income) and dividends are paid by institutions with a greater net worth, all other things being equal. As a result, a person's net worth increases as their assets grow in size, income rises, and dividends are distributed. Because it is impossible to measure economic net worth directly, people use these factors as proxies. Since all of these characteristics are a proxy for one's net worth, people have created a net worth index to reflect that. Because the model's leverage is decreasing as ratings are decreasing.

3.2 Risk Management of Islamic Terrorism in Mozambique

According to Bussotti, (2020) when it comes to its national identity, Mozambique has always maintained an extremely high degree of religious tolerance and has never been plagued by religious strife. The 16-year civil war between the government-run by a single party, Frelimo, and the major opposition group, Renamo (National Resistance of Mozambique), which has been going on for more than 20 years, never had religious motives. De Felice, (2015) stated that 53 percent Christian, 19 percent Muslim, and 30 percent traditionalist, this country has a religious mosaic that demonstrates its calm coexistence (ACN International, 2018). Northern areas like Nampula and Cabo Delgado are home to the majority of Muslims, as is the capital city of Maputo in the southern province of Niassa. In light of Mozambique's recent history, it is possible that the country's leadership overlooked warnings from radicalized Islamic organizations in Cabo Delgado Province about an emerging religious danger. The Mozambican government likely underestimated a well-known danger for a variety of political and financial reasons, and as a result, it bears significant responsibility.

Maschietto, (2016) stated that it is necessary to provide a brief history of Islam in Mozambique to better understand why the nation is not at risk from religious extremism. Religious concerns in Mozambique have been dealt with in a variety of ways depending on the period. State-level socialism was adopted by Mozambique as soon as it gained independence from Portugal in 1975. Religion was authorized as a private choice under the country's 1975 Constitution, although it was severely restricted. Kayuni, (2016) pointed out that for the Catholic Church, which was seen as a tool of the Portuguese colonial government, this was particularly true. Curanderos (traditionalists) were branded "obscurantists" and mainly deported by the state during this initial independence period (Decree No. 5/76), which featured a wave of nationalizations that included religious holdings. Some religious leaders, as well as political dissidents and traditional chiefs in the North, were transferred to the country's "reeducation camps," including the notorious Niassa.

Chagutah, (2013) analyzed that the Mozambican socialist government, despite its overall attitude to religious problems, attempted to build a positive connection with the country's Muslim population in the early 1980s. The Sufi branch of Islam had existed in Northern Mozambique since the 8th century, and the Portuguese administration intended to use it to crush Wahhabism, a more urban version of Islam developed in Mozambique in the 1960s by Indian-Mozambicans and based in the Lourenço Marques Anuaril mosque. During Frelimo's only fight for independence, the northern brotherhoods aggressively opposed Portuguese control. This choice is politically motivated by the oppression of Muslims by Portuguese colonialism and the support of Tanzanian TANU (Tanganyika African National Union) for the Frelimo regime in the country of origin. Muslim-dominated TANU functioned as a "bridge" between Frelimo and the Mozambique independence fight.

Romaniuk, (2018) examined that since 1978-79 constitutional amendments, two Mozambican Islamic inclinations founded a distinct Muslim organization to deal with the legal and political developments. In 1981, the Islamic Council of Mozambique was established in Maputo under the leadership of Abubakar Ismael "Mangira," the first president of the new organization. Wahhabism and Frelimo's inclination for this philosophy produced a schism in the Council, resulting in the creation of the Islamic Congress of Mozambique in 1983. MWANIKI, (2011) stated that despite Frelimo's dominance, the Islamic Congress still has a significant presence in Northern Mozambique, where it maintains close ties with small brotherhoods, traditional chiefships, and local governments. On the other hand, Maputo's affluent Asian-Mozambican lords still govern the Islamic Council. The Islamic Council has extensive political and economic relations with Frelimo.

According to Arregui, (2015) it is not only their ethnic backgrounds that separate the Council and the Congress, but also their economic and political outlooks, which are markedly different from each other. Because of this, it is not surprising that extremist organizations in the country's north, traditionally excluded from Frelimo's power structure, have carried out assaults with an Islamist slant. Mocimboa da Praia, north of Cabo Delgado Province, had its first terrorist assault on October 5, 2017, when an unknown gang of alleged Islamic terrorists attacked a police station. These attacks took place in the vicinity of Afungi's gas production fields by international corporations including Anadarko, ENI, ExxonMobil, and Galp. This came as a surprise to me. Attacks have persisted since then, resulting in hundreds of fatalities (probably near 1000). Public discussion has now turned to the inconsistencies the Mozambican government has displayed in managing this phenomenon, rather than the origins of this sudden surge of assaults.

Coelho, (2013) stated that institutions in Mozambique, especially the military, have been caught off guard in subsequent attacks, as was the case with the first strike. This is a puzzling development, especially because the Mozambican government just authorized a significant investment in gas in the region where the terrorist attacks took place. Mozambique's economy is suffering as a result of Exxon-delay ENI in making a final investment choice. Despite this, the Mozambique government has continued to use a strategy that gives the Cabo Delgado Province insurgents a significant military advantage.

According to Matsinhe, (2019) despite an increase in recent years, studies on the Mozambican government's response to Islamic terrorism are uncommon. The threat of an Islamic insurrection in Mozambique was rated minimal in certain analyses conducted by foreign organizations and research institutions in the early 2010s. Some intelligence agencies have shown that Northern Mozambique has been at a high risk of Islamic radicalism since the 2010s, according to private reports.

Estelle, (2020) stated that two Chatham House experts were the first to do a political risk analysis, at one of the most famous international affairs institutes in the world. The writers in this case took a snapshot of some of the potential dangers in Northern Mozambique, but their depiction is too pessimistic. An Islamic insurrection is a real possibility, because of "weak governance" and "the collaboration of elites with transnational criminal networks." Mozambique's North has a large population of South-Asian Muslim immigrants, who may be used as a "transit point" for terrorist activities. This remark was supported by this fact. Faleg, (2019) analyzed that while there was some concern over this, the Mozambican government considered it low danger since the country's Islam population was well-entrenched in local political circles. For this reason, the authors ruled out a probable radicalization process among

Frelimo members. Only a small group of Muslims in Cabo Delgado fit the author's criteria for being a "strict elite" who represented Frelimo and were wealthy businessmen. Others, mostly from the Kimwani and Makhwas ethnic groups, were impoverished people who had little affection for Frelimo or the Mozambican government, in contrast to the official Islam of the Islamic Council of Mozambique. According to Warner, (2020) after years of marginalization and exclusion from mainstream society due to their Makondes heritage, this significant Muslim community began violent assaults against government institutions in 2017. Other investigations, beginning in 2018, began to point to a different reality. Mocimboa da Praia in Cabo Delgado was the first place to display evidence of a new kind of Islam in 2014-2015, according to locals. In the words of three "Sheik" Islamic leaders in Mozambique, radicals from Congo, Uganda, Tanzania, and Kenya have aided in the radicalization of young Muslims who had previously practiced Islam in the conventional mosques. They propagate a radical form of Islam that calls for imposing Sharia law on everyone. As a side note, officials had been notified about the phenomena, but chose inactivity and turned a blind eye until they were forcibly awoken and disturbed in October 2017.

David Strang, (2015) stated that ASWJ was founded in Mozambique by Nur Adremam and Jafar Alawi, both residents of Mocimboa da Praia, in 2015. "Aboud Rongo" (a radical Muslim preacher who died in 2012 and had an entry point into Mozambique) is said to have inspired the group. It is "considered a fragile state," says Swart, and lacks "a counterterrorism and insurgency capability, both in expertise and equipment." Mozambique and Tanzania were driven to construct an independent national state under Sharia law because of these inadequacies in the state of Mozambique and Tanzania.

3.3 Contribution of digital financial services to financial inclusion in Mozambique

According to Mutondo, (2019) in recent years, electronic and digital financial services have grown in popularity in Mozambique, as they have in many other African nations. It is possible to access digital financial services through several channels, including those provided by banks such as PCs (Internet Banking and Home banking), ATMs (ATM/POS terminal), and mobile phones (Mobile Banking) in the modern world. A rising number of studies suggest that leveraging digital financial services to improve financial inclusion may be beneficial to a broad variety of nations. Many nations have been impacted by climate change, including Kenya, Tanzania, and India. It is governments can keep consumer and retail spending patterns and increase efficiency by using electronic payments. iii) For traders, the ease of use, quickness, and ability to generate revenue through digital payments make them an attractive option.

Ayadi, (2020) examined that ATMs and point-of-sale terminals, together with real-time clearing and government payments systems, are all becoming increasingly widespread in Mozambique. The Mozambican people have had access to digital financial channels and services for more than seven years. A national assessment of the impact of this expansion of financial service availability and use is overdue. More than two-thirds of the people in Mozambique are unable to access formal banking services. Among those who are financially engaged, 20 percent have a bank account, 2 percent utilize non-bank financial services, and 13 percent get their services informally. Zucula, (2017) stated that a majority of rural inhabitants are uninsured or underinsured. According to statistics from the Bank of Mozambique, electronic and digital financial services are becoming more important to the country's efforts to raise its level of financial inclusion. According to the most recent statistics, there are 228 retail locations for every 100,000 people, 11 ATMs, and 334 customer service representatives for every 100,000 people as of September 2019. (In 2005, there were none, and in 2011, there were 21). There are currently seven banking agents for every 100,000 individuals, up from zero in 2005. In total, the proportion of people possessing a bank account (balkanization) stayed at 32% in 2019. According to a rate of 6.5% in 2005. Of the accounts created with electronic money institutions in September of this year, 55% had been opened with several different financial institutions.

Verwey, (2018) stated that the phrase "digital financial services" refers to the wide variety of financial products and services that may now be accessed through mobile devices, the internet, credit cards, and POS terminals. Cash or conventional bank branches are not necessary for these services. "digital financial services" on the other hand, refers to the usage of financial services delivered electronically by both financial and non-financial firms. Celestino, (2018) pointed out that digital financial services today comprise e-money, cloud computing, big data analytics, blockchain, and distributed ledger technologies in addition to conventional retail and large bank electronic payment systems. Financial services and goods may be obtained at inexpensive prices by using any or all of these strategies. So the process of making sure everyone has access to, availability for, and use of, the financial system and knowledge about it is known as "financial inclusion." Finances are better allocated and managed in a financially inclusive system, which reduces the reliance on informal lending while also promoting safer and more efficient financial service provider operations.

Unit, (2014) stated that to achieve digital financial inclusion, suppliers must provide digital financial services that can be used by the underserved population, who are not covered by conventional financial services that can be sustained. In addition to the Alliance for Financial Inclusion (AFI) and the Consultative Group on Assisting the Poor (CGAP), numerous organizations support digital financial services (GPFI). When it comes to boosting financial inclusion and increasing total financial service usage, the GPFI points to the development of digital payment infrastructure as an example. Electronic money models and digital payment systems, as well as internet banking, mobile solutions, and other technological improvements, are helping to expand the reach of traditional banks' services to customers.

Sekantsi, (2019) analyzed that while acknowledging the significance of digital financial services, the G20 2016 established the 'G20 High-Level Principles for Digital Financial Inclusion to limit the dangers connected with these services. To reap the advantages of digital financial inclusion, governments need to adhere to these principles. For example, creating an environment that encourages digital financial inclusion by leveraging innovation and risk, expanding the ecosystem of digital financial services, encouraging responsible digital financial services practices for consumer protection, and enhancing consumer education and protection are all examples of these kinds of measures.

Baxter, (2015) pointed out that barriers to financial inclusion exist, such as a lack of official identity, poor financial literacy, and expensive fees for banking services in rural regions according to the author's findings. According to the author, digital financial services can help alleviate the barriers to financial inclusion by allowing all consumers, especially non-bank consumers, to access and benefit from financial services; (ii) reduce financial service costs, and

(iii) encourage the emergence of new business models that can address consumer needs while generating new revenue streams.

According to Didenko, (2020) financial inclusion is studied using a panel dataset that contains data on the number of bank accounts held by every 1,000 persons. The number of institutions that provide safe Internet access and the number of Internet users per 100 persons is both included in this collection of statistics. According to the findings of this research, increasing access to the internet and increasing financial inclusion in areas that lack physical access to bank branches are two of the most important factors in creating a digital financial services sector. Financial inclusion was examined as a result, and researchers discovered that internet access had a positive impact. Ciacci, (2020) examined that research of 27 African nations conducted between 2004 and 2013 indicated that mobile phone usage and infrastructure had a beneficial effect on financial inclusion. Financial inclusion in sub-Saharan Africa was also examined by the author between 2004 and 2015. The number of ATMs, POSs, and bank branches were used as a proxy for the amount of credit and deposits per 1,000 adults to quantify financial inclusion. One indicator of social well-being was the percentage of the population having mobile phone access. When people have access to ATMs, the internet, and mobile banking, they are more likely to have financial inclusion.

Naidoo, (2016) pointed out that other research focused only on the connection between digital financial services and financial inclusion and the effects they have on it. To determine the level of financial inclusion, researchers looked at two sets of indicators: first, how many people had access to or used mobile financial services; and second, a set of control variables that included demographic information like age, gender, and where people lived. Following these data, the authors reached the following conclusion: digital financial services have a positive and very significant effect on savings, indicating that mobile financial service users can save more than those who do not. The influence of digital financial services on Ghana's economy was examined. Financial inclusion would benefit greatly from the widespread use of mobile financial services, as this study found that mobile phone subscriptions had a large and positive influence.

According to Agur, (2020) financial inclusion and the economy were examined as a result of an examination into the influence of technological diffusion. The ITU's ICT development index for 175 countries was examined by the writers. Internet use, mobile and fixed network penetration, and imports of technology are all included in this metric. Their research also takes into consideration the total number of ATMs available to the general public. According to these experts, the number of bank accounts is heavily influenced by internet users. Gillwald, (2019) stated that the number of bank accounts is strongly influenced by the accessibility of ATMs, the quantity of private sector credit, and the number of bank branches. The author concentrated on Kenya from 2012 to 2016. E-money institutions may access the accounts of more than one million customers using a regression model. There was no correlation between the variables of e-money, internet banking, bank branches, and ATMs. The author finds that mobile banking, ATMs, bank agents, and internet banking have the biggest influence on financial inclusion. E-payment system indicators such as bank card numbers, mobile phone banking, internet banking, and online remittances were dependent variables in the analysis of data from 253 polls. Using electronic payments has been shown to have a considerable effect on a company's financial success, according to this report

Shinkafi, (2019) examined that POSs and ATMs, which were made possible by the arrival of the EMV payment standards developed by Europay, Mastercard, and Visa (EMV) in 1996, were among the first electronic payment channels available in Mozambique by 1997. As of 2001, the government's STF and CEL electronic money transfer systems had been operational, whereas MTR’s real-time gross settlement was only put in place in 2008. An electronic money institution, as defined by the Credit Institutions and Financial Companies Act of 2004, is a credit institution whose primary goal is to issue payments in electronic money with suitable terms and conditions. E-money is defined by law as the monetary value represented by an issuer credit that is held electronically and (ii) accepts it as a payment method from another party and may be converted into cash.

Mushtaq, (2019) stated that as electronic payments grew more popular and the public aim of establishing the national payment system's security, reliability, openness, and efficiency was pursued, new channels and payment methods for the general public were continually being created. Digital bill payments to merchants, international remittances, government payments, and other types of payments may all be made using these channels, as can payments made through the internet or mobile devices, home banking, or NFC/contactless cards.

4. Findings and Discussions

From the empirical review, we found that religious tolerance has always been an important part of Mozambique's national character, and the country has never been troubled by religious conflict. Neither side in the more than two-decade-old civil conflict between Frelimo, the party in power, and Renamo (the National Resistance of Mozambique), the main opposition force, has ever used religion as a justification. This country has a religious mosaic of 53 percent Christian, 19 percent Muslim, and 30 percent traditionalist, which displays its peaceful cohabitation (ACN International, 2018). Muslims predominate in northern provinces like Nampula and Cabo Delgado, as well as the capital city of Maputo in southern Niassa province. A religious threat in Cabo Delgado Province, Mozambique, may have been disregarded by the country's government because of its previous history of violence. For several political and financial reasons, the Mozambican government likely misjudged a well-known risk, and as a consequence, it bears substantial responsibility. Terrorist acts have also been rare in Southern and Eastern Africa since the departure of Tanzania, Kenya, and Somalia.

In addition, it was also found that In recent years, electronic and digital financial services have grown in popularity in Mozambique, as they have in many other African nations. It is possible to access digital financial services through several channels, including those provided by banks such as PCs (Internet Banking and Home banking), ATMs (ATM/POS terminal), and mobile phones (Mobile Banking) in the modern world (provided using USB technology offered by the electronic money institutions). A rising number of studies suggest that leveraging digital financial services to improve financial inclusion may be beneficial to a broad variety of nations. Many nations have been impacted by climate change, including Kenya, Tanzania, and India. Governments can keep tabs on consumer and retail spending patterns and increase efficiency by using electronic payments. When it comes to trading, digital payments have a lot going for them because of their convenience, speed, and capacity to produce income.

5. Conclusion and Recommendations

After studying Risk Management of Islamic Terrorism of Mozambique it was concluded that when Mozambique's local officials had to consider three prospective threats, they discovered the state's vulnerability. Strategic and institutional considerations have little to do with the risk measurement and management criteria. Renamo's threat and maritime security in the Mozambique Channel provided Guebuza with the opportunity to reinforce his authoritarian tendencies and personal and family prosperity while ignoring the danger of Islamic terrorism, which may destabilize the country. One that was well-known to the administration, owing to the work of SISE and the regular inflow of information from Islamist moderates, since the years 2010-2011.

International military and intelligence collaboration, such as Kenya's with the United States, has proven crucial in the battle against Islamic terrorism, as seen by the experience of Eastern African nations like Kenya. Immediately after the 1998 bombing assaults on the American embassy in Nairobi, Kenyan police were educated by the National Security Intelligence Service of the United States, and in 2003 Kenya built a series of anti-terrorism groups that became a model for other Eastern African nations. A lot might be gained from Kenya's and Tanzania's elections, but Mozambique's leadership chose to ignore Islamist militancy in the country's northern region, particularly in the province of Cabo Delgado.

This study uncovered an intriguing aspect: fragility is the primary factor of institutional risk management. Research shows that Guebuza had a personal goal of keeping power via constitutional revision, as shown by the findings of the investigation. An internal resistance within Frelimo prevented this project from being completed. While Guebuza's administration was not directly influenced by this influence, it was mostly exercised through the process of succession. The participation of Frelimo and the institutional institutions that had to counterbalance the choices of the Chief of State had little effect on Guebuza's influence. For Guebuza, the ability to enforce his views and his understanding of national risk across all organizations was a crucial factor in risk avoidance and management. Until now, strategic political alternatives in Mozambique have been influenced by this situation of institutional fragility and the inadequacy of Mozambican civil society. And one of the most obvious strategic repercussions is the present out-of-control Islamic terrorism in Cabo Delgado, which has been grossly underestimated.

According to the ARDL paradigm, this study investigates the influence of digital financial services on Mozambique's financial inclusion from 2011 to 2019. Financial inclusion in Mozambique has been shown to benefit from digital financial services, particularly from traditional payment methods like ATMs, POS, and CBR, as well as from more recent payment methods like e-money. To achieve financial inclusion, people must first guarantee that traditional electronic payment tools are broadly available and extensively used. Many policies are required to promote bank access and usage in the financial sector, such as measures aimed at streamlining account opening processes and extending banking services to rural areas. A streamlined bank account regime for low-risk persons and collaboration with other government agencies to provide the essential identifying components for establishing bank accounts should be included in such policies.

People need regulations supporting and lowering the use of digital financial services because of their fast expansion and demonstrated impact on financial inclusion. I modernize the payments infrastructure to improve the speed and quality of payment transactions; (ii) foster an environment that is open and flexible to encourage financial institution innovation, and I increase financial institution cooperation and the massification of innovative digital financial services.

After all, as digital financial services spread throughout Mozambique, regulators should look at the impact they have on the country's monetary and financial stability, as they have a direct impact on how people access and utilize financial services. The impact of digital financial services on monetary policy and the potential risks of financial innovations to financial stability and integrity can both be captured and minimized by central banks including variables reflecting advancements in digital financial services in their models and risk analyses.

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