

**Carlyle Partners**  
Health - Life - Pensions

# MONTHLY NEWSLETTER

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# Alleviating post-retirement poverty; the value proposition of micro pensions

By Lemmy Manje\*

Modern pension system can trace their roots back at least to late 19th century in Germany, when the Bismarckian social welfare system was introduced. Nowadays, pensions is widely spread and established around the globe in both developed and developing countries. Though the type of pension system varies, all play an important role in providing necessary income to elderly populations and in alleviating post-retirement poverty among the poorest sectors of society. However, despite the continued evolution and development of modern pension system over the past century, one issue which is yet to be resolved is how to extend such structured pensions arrangement to the informal sector workers. Though the definition of this sector varies by country, informal sector workers are generally those with low incomes or self-employed; usually working in very small unregistered companies, often on a part-time basis in industries such as agriculture, construction and services. Compared to workers in the formal sector who normally join either mandatory or voluntary pension systems, or both; those in the informal sector are typically underserved or unserved by modern, structured pension systems.

Micro pensions is among the 'new micro'; that is, after micro credit, micro savings and micro insurance. Investments in micro pensions aims to fill the gap created by most modern pensions systems. Micro pensions are designed with an overarching goal of inclusivity; addressing the systemic market barriers that inhibit informal sector workers from being covered by pension systems. Around the globe, there are a number of emerging micro pensions. By design, micro pensions is basically long term voluntary small savings done by the people in the informal sector (such as informal workers, microentrepreneurs, small business owners, non-salaried and low income workers) with the objective of obtaining income security during old age. The savings are managed by professional fund managers who invest these savings in financial or capital markets at a low cost over a long period to yield returns. The accumulated amount acquired, may be withdrawn as a lump-sum and/or annuity at the pre-determined pensionable age. Micro pensions have been created to foster financial inclusivity as they accommodate the low-income population and are accessible to poor people. Micro pensions provide a new opportunity and platform for a just and equitable distribution of income among the aged population and for all ages as well. Their purpose would be to shield low income earners against poverty in their ageing years and provides them with some form of independence.

Different countries have varying forms of micro-pension systems; for instance, Bangladesh and India have a model operated on the Grameen principles, Chile has a government subsidized and co-sponsored scheme, China has a scheme characterized by compulsion, minimum income guarantees and micro life insurance products, Kenya has a voluntary defined contributory scheme and South Africa's informal sectors workers are covered by the public pension system. Rwanda has

voluntary long-term saving scheme, namely Ejo Heza which also has a government co-contribution and life insurance.

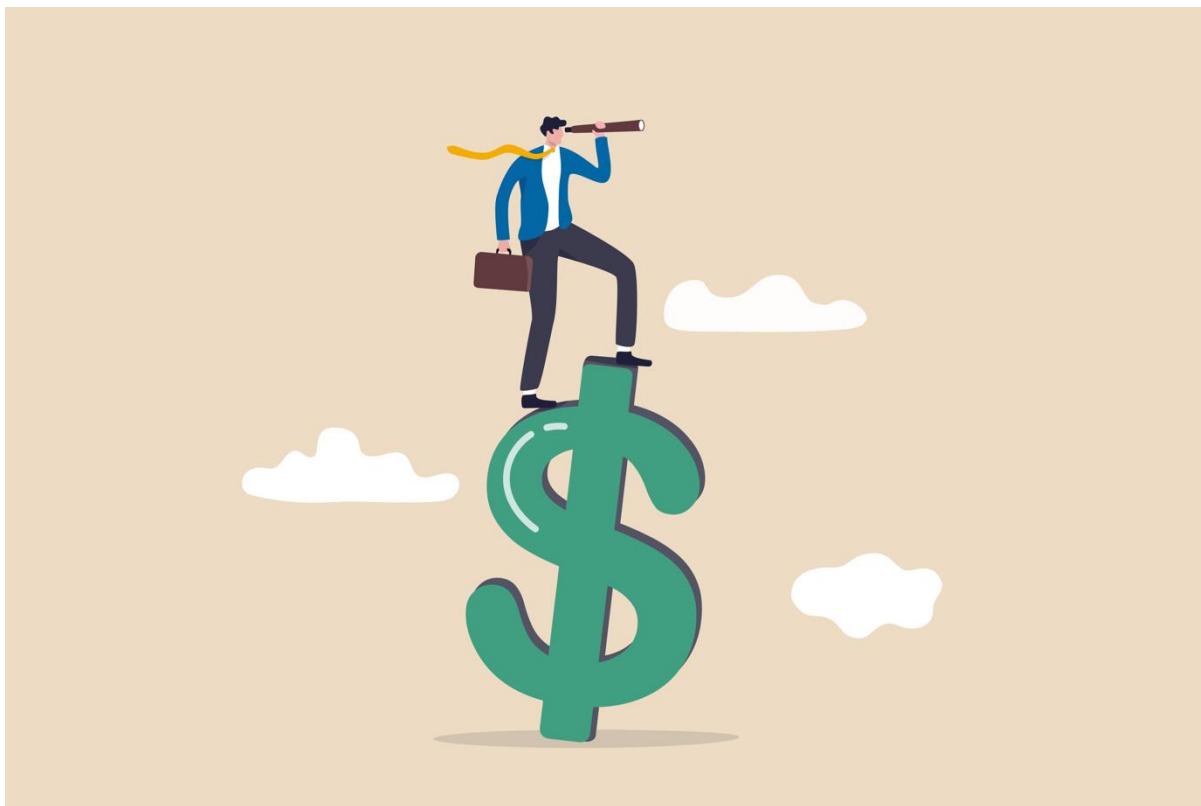
Any country contemplating investments in micro pensions schemes should start by conducting a feasibility study. The findings from the feasibility will guide the design, model and structure of the scheme. Another important ingredient of successful micro pensions scheme is government involvement. Although some schemes are in infancy stages, micro pension is proving to be an effective financial service to alleviate poverty for households and individuals in informal sector.

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# Foreign currency exchange

By Alberto Pitoro\*



In our last newsletter we addressed the possibility of diversifying pension fund assets investing in foreign currency-expressed instruments. Since this approach focused only on pension funds, the question that came to our attention is: would the principle be applied to other types of investors?

The answer is, yes. Provided that the constraints imposed by law, in particular by the Foreign Exchange Act and its regulations, are also met. In such a case, where certain expenses and liabilities are expressed in foreign currency, investing in assets expressed in such currencies, in proportions intended exclusively to meet such needs, may reduce the inherent foreign exchange risk.

Act 11/2009 adopted on March 11, Foreign Exchange Act, provides in Section 6(1) that "all foreign exchange transactions are subject to registration under the terms set out in such regulations". And according to paragraph 3, d) of the same Section 6, the opening and operation of accounts held by residents in foreign currency or in units of account used in international set-offs or payments require approval from the foreign exchange authority under the terms defined in specific regulations. The opening and operation of accounts with financial institutions abroad is also subject to approval by the foreign exchange authority (Section 6(5)(c)).

In addition to the preceding, the Foreign Exchange Act also provides for mandatory reporting and remittance of foreign exchange assets, including investment income abroad. As can be noted from this brief reference, for pension funds as well as for other investors, foreign exchange matters are somehow rather complex, with requirements varying according to the cases and nature of the operations, so we always recommend consulting a specialized entity before taking any decision.

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# Market Intelligence

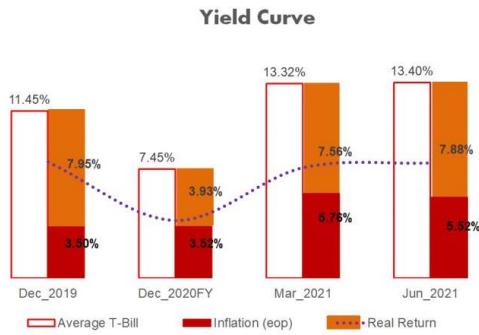
By Absa Bank Mozambique



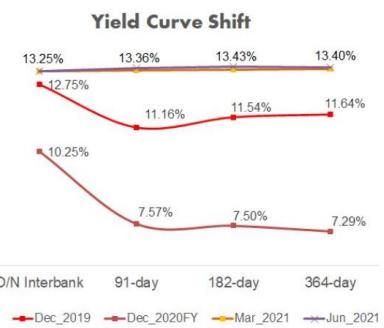
## Macroeconomic Indicators

Source: Central Bank, INE, MEF, Absa Research

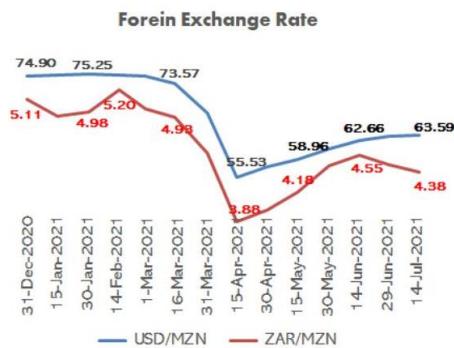
	2018	2019	2020E	2021F	2022F	2023F	2024F
Real GDP (% y/y)	3.3	2.2	-1.3	3.0	4.5	5.4	6.3
GDP (USD bn)	14.8	15.3	13.9	13.8	14.6	16.1	15.9
Current Account Balance (% GDP)	-30.3	-19.7	-27.7	-31.1	-30.6	-30.2	-29.2
Fiscal Balance (% GDP)	-5.3	-0.2	-10.8	-8.5	-7.8	-5.9	-4.8
Public Debt (% GDP)	110.0	104.0	117.0	116.3	113.1	103.1	99.4
CPI (%Dec/Dec)	3.5	3.5	3.5	4.8	5.2	5.7	6.7
CPI (p avg.)	3.9	2.8	3.2	5.5	4.2	6.0	6.0
Policy Rate (MIMO, % eop)	14.25	12.75	10.25	13.25	13.75	14.75	14.75
USD/MZN (eop)	61.63	61.64	74.60	77.80	82.10	80.50	80.00
USD/MZN (avg)	60.34	62.43	69.87	77.85	80.49	81.10	80.25
	Q4 20	Q1 21F	Q2 21F	Q3 21F	Q4 21F	Q1 22F	Q2 22F
CPI (% y/y, eop)	3.5	4.8	6.1	6.6	5.3	4.0	3.6
Policy rate (%, eop)	10.25	13.25	13.25	13.25	13.25	13.75	13.75
	Stop	Q1 21F	Q2 21F	Q3 21F	Q4 21F	Q1 22F	Q2 22F
USD/MZN	73.57	76.20	78.00	79.40	77.80	78.88	79.95
ZAR/MZN	4.98	5.08	4.95	4.96	4.79	4.79	4.76



Source: Bank of Mozambique



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