

SME Finance Working Group Minutes of Meeting

Date: July 13, 2020

Platform: Google Hangouts

Attendees: TWA, Absa, GAPI, Standard Bank, FNB, FNDS, CEP-CTA, UNICEF

Conference agenda:

- Context of MSP to date & update on Pemba engagement
- Overview of SME finance matching deliverable
- Discussion around SME guarantee facility concept note
- Next steps

Context of MSP to date & update on Pemba engagement

- Despite effect of COVID, working group has still managed to make progress through the following initiatives - sectoral interviews with Absa & GAPI, published data on the effect of COVID on Northern-region SMEs, and data collection of commercial banking credit lines
- Agenda for the call: discuss the SME facing tool, the COVID guarantee mechanism, and the need to effectively use monthly sessions for value-adding content
- MSP governance is expanding to include key GoM and CSO stakeholders namely ADIN, Government of Cabo Delgado, and PPDS-CD
- Aiming to officially launch the platform in August with monthly meetings thereafter. Working groups will be consolidated into two: SME financing / Local Content Capacity Building and Pemba-Lichinga Corridor / Palma Planning
- The objective of Pemba sessions is to engage with Northern-based business, community leaders, and CSOs

Overview of SME finance matching deliverable

- Context of the tool: feedback from previous working group sessions suggested that a tool be created for SMEs to be able to view the available financing options. MSP Secretariat collected data from commercial banks on their existing credit lines
- Objective of the deliverable: to create a 'matching' tool where CD-based SMEs can fill in criteria and find financing solutions that meet their requirements
- Feedback:
 - Using the tool for financial literacy purposes as well with explanations of the prime lending rate, annual equivalent rates, different types of banking products (letter of

credit, guarantees, etc.). Partnering with financial intermediaries that are not-for-profit to collaborate in this aspect

- Important to consider the granularity of data during the design phase is on the same level to ensure comparability across products. Commercial banks should assist in the design process to ensure success of the product
- Non-banking products should be included as well such as equity
- Addressing companies in the LNG value chain to ensure understanding of local content requirements and adequately finance, specifically from tier 3 – tier 5
- Promote the conversion of informal entities into more formal actors
- Integrate the use of alternative data sources such as mobile money transactions
- The tool would bring transparency to the market and SME's

Discussion around SME guarantee facility concept note

- International benchmarks given about the COVID UK-based Business Bounce Back Loan and Portugal's long-term Mutual Guarantee Scheme
- Idea of the deliverable: working towards a potential white paper that outlines a guarantee mechanism as a SME COVID relief solution and becomes the first phase of a longer-term local content facility over time. The objective is to inject capital into the economy through loans to COVID-impacted loans using government guarantees as collateral. The government can leverage existing capital and donors can provide additional support
- A mechanism like this had a 16x multiplier effect in Portugal's system, and has potential to create much more financial impact in Mozambique
- Feedback:
 - Important to move quickly on this initiative seeing as it has short-term benefits. It will be vital to receive buy-in and carry out advocacy efforts with donors and their attached commercial banks. Pitching the idea and conducting an initial roll-out will be key
 - Incentive mechanisms can be built into the credit line where SMEs will receive initial terms and will have to satisfy base-level requirements to be able to 'graduate' to a larger loan within the system. This process will minimize initial risk and filter through SMEs

Next steps

- MSP Secretariat to contact stakeholders through email to:
 - Align on workplan for deliverables that are worth workshopping
 - Incorporate member feedback, specifically to liaise with financial intermediaries and financial institutions to integrate financial literacy as well as appropriate tool format respectively
 - Conduct initial work with working group champions on agreed-upon deliverables
 - Set timeline and agendas