White paper - Guarantee facility to support Mozambique's SMEs

September 2020

Note: This White Paper has been produced on behalf of MSP SME Financing Working Group Members and does not necessarily reflect the opinions of the MSP Sponsors or any individual member of the Platform

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NA REGIÃO NORTE DE MOÇAMBIQUE

1 ABSTRACT / SUMMARY

In the wake of the COVID-19 pandemic (COVID) and the resulting global economic impact, governments around the world have implemented economic relief packages and mechanisms aimed at supporting SMEs. The Multi-Stakeholder Platform (MSP) is a multi-partner forum that has been established to support the development of the Northern region of Mozambique and it advocates for inclusive, sustainable and integrated development. The SME Financing working group of the MSP has begun conceptualizing a mechanism to similarly support SMEs in Mozambique, and this white paper is a realization of this collaborative initiative. This paper will explore the possibility and efficacy of structuring a guarantee facility to achieve this end.

2 CONTEXT

In recent years, Mozambique has experienced challenges impacting its economic growth potential. In 2017, the public debt crisis triggered a period of economic uncertainty which was further exacerbated by two successive cyclones in 2019, growing insurgency in the northern provinces, and delays in large scale investment in natural gas development. The global pandemic has further strained local economic prospects through shifts in global supply chains and a government-imposed state of emergency, limiting commercial activities and international travel.

Mozambique experienced subdued growth of 2.2% in 2019, down from 3.4% in 2018 as a result of the aforementioned cyclones that weighed on agricultural output as well as a contraction in the mining and trade sectors over the year (particularly due to the fall of coal production by nearly a quarter caused by technical and productivity issues)[1]. The reconstruction effort in the central and northern provinces combined with improved agriculture sector outputs were cited as important drivers of economic growth in 2020, alongside natural gas developments. Mozambique's economy was projected to grow as a result of natural gas exploration in upcoming months, following Area 1's Final Investment Decision (FID) in June 2019. However, COVID has prompted a reduction in global demand and a resultant sharp drop in energy prices, resulting in IOCs cutting back on capital expenditure. Delays in FID for the Rovuma LNG project have been an economic setback and dimmed the country's long-term prospects. Despite these adverse effects, GDP growth prospects remain positive and are projected to grow to 6.5% by Q4 of 2023[2].

Despite the adverse effects of COVID, Mozambique's economic growth is projected to remain in positive territory, at 0.6% in 2020[3], bolstered by reconstruction activity and gas development. The Bank of Mozambique expects the impact of COVID to be severe, and therefore projects inflation to hit 5% by year-end as a result of falling demand. Although FX reserves remain solid at US$ 3.9 billion as of April 2020, sufficient to cover around six months of imports, there is an expectation

[1] Fitch Solutions: Country Risk Report (Q3 2020)
[2] Standard Bank: progress has been made on the LNG project (July 2020)
[3] Absa: SSA Viewpoints (May 2020)

of a 5% decline in imports during 2020 compared to 2019[1]. Flows from multilaterals and development partners should also prop up FX reserves which will prevent a sharp depreciation in the exchange rate. Forecasts often predict that extractives will drive the country's recovery. As the World Bank outlined in its 2017 report, Mozambique is becoming "a two-speed economy, as extractives and other large industries drive improvements in growth while other sectors lag behind". It is therefore vital to support Mozambique's small and medium businesses to propel the country's economic and social growth.

The state of emergency in response to the pandemic has also furthered a contraction in economic activity. Many small and medium enterprises have been severely affected during COVID particularly in the mining, construction & manufacturing, trade, transport and tourism sectors. In the north of Mozambique, approximately 38% of businesses have been temporarily or permanently closed, and at least 2,815 jobs have been impacted due to suspended or terminated contracts[4]. The Bank of Mozambique introduced a range of measures beginning in March to encourage economic recovery. The bank cut the policy rate (MIMO) firstly by 150bp on 16 April from 12.75% to 11.75%, and further to 10.25% in June, consequently reducing interest rates and encouraging borrowing and investing. There was a reduction in mandatory reserves on commercial bank deposits by the same amount, resulting in local currency reserves of 11.5% and foreign currency reserves at 34.5% to increase liquidity and reduce commercial banking costs. The bank also eliminated the obligation for commercial banks to set up provisions for restructured loans by customers who were affected by COVID to encourage SME liquidity and increase the robustness of the financial sector. Lastly, the bank introduced a US$ 500 million foreign currency financing line available to institutions participating in the interbank FX market for a period of nine months. The stated purposes of this line were to stimulate imports, increase FX circulation, reduce exchange rate fluctuation, and promote price stability. Although these policies are a step in the right direction, there are increased calls for a sharper response in policy to help restore the health of Mozambique's SMEs and support the growth of the as the economy continues to adjust.

3 THE OPPORTUNITY

Mozambique's low fiscal buffer coupled with high public debt indicate potential difficulty in weathering a financial crisis, particularly in light of the global COVID economic impact. Against this backdrop and considering the fragile state of the economy and high healthcare spending, Mozambique runs the risk of slipping into a recession. The Government's limited options in stimulating the economy paired with a structurally weak health system calls for an innovative market solution during these exceptional circumstances. A structured solution in which the Government of Mozambique, as well as assistance from partners such as multilaterals and bilateral development organizations, may be key to preventing a deeper economic and social crisis. Additional external support may provide extra buffer to meet the elevated financing needs and ease the financial burden of the pandemic.

[4] Data collected by IGT/CTA (May 2020)

Research shows that SMEs play a major role in most economies, particularly in sub-Saharan Africa where they account for the majority of businesses and are important contributors to job creation and overall economic development. In Mozambique, SMEs comprise no less than 98% of the market[5]. Due to its significant role in the economy, injecting liquidity into SMEs would be a highly impactful short-term response during COVID.

In many developing countries, SME financing gaps have become incredibly prevalent due to under-collateralization and under-capitalization, limited credit histories, and lack of formal financial audits. These limitations lead to increased lending risk that often result in elevated costs of capital making traditional financial solutions unattainable for many SMEs. One solution to reduce this risk (and therefore the cost of capital) has been the increased use of guarantee facilities to underwrite SME credit risk. A guarantee scheme is defined as a third-party (public or private) providing credit risk mitigation to lenders (i.e. commercial banks or other financial intermediaries) through the absorption of a portion or the totality of the lender's losses on loans.

More recently, in particular in light of COVID, credit guarantee schemes have become a key policy tool for addressing the financing gap by extending credit to SMEs without compromising banking capital requirements and simultaneously limiting the burden on public finances. Government intervention through a public credit guarantee scheme is often favourable for unlocking capital and facilitating SME growth or, in cases of economic crisis, bolstering economic recovery and employment. By protecting a portion of loan books with a guarantee, the guarantor can reduce (or in some cases eliminate) lender risk. Lenders are typically private financial intermediaries (i.e. commercial banks), whereas guarantors or counter-guarantors may be private or public. The interaction of the two actors results in the promotion of loan access to borrowers that are typically underserved by formal credit markets. As we will further explore in Section 7, the impact of guarantee scheme is catalytic allowing for the deployment of capital several times greater than the posted guarantee value.

In the following section, international benchmarks of governments supporting SMEs through short and longer-term mechanisms will be outlined. This will form the basis for the argument that a donor-backed government guarantee facility for commercial bank lending could be a suitable solution to solve short-term constraints caused by COVID in Mozambique, and possibly extending beyond to a longer-term, broader Local Content SME financing mechanism if proven successful. The paper will outline a high-level conceptual design of how this can be implemented in the Mozambican economy.

[5] Report by the Institute for the Promotion of Small and Medium Enterprises (IPEME, 2015)

4 INTERNATIONAL CASE STUDIES

4.1. *United Kingdom – Coronavirus Business Interruption Loan Scheme (CBILS) & Bounce Back Loan Scheme (BBLS)*

As a response to the negative economic impact of COVID, the UK government launched the Coronavirus Business Interruption Loan Scheme (CBILS) in March targeted at SMEs, and the Bounce Back Loan Scheme (BBLS) in April targeted at micro SMEs that required fast-track smaller loans. Both schemes sit within a wider package of government support to UK businesses and employees to ease access to finance for small businesses. The schemes are designed to provide liquidity to businesses impacted by COVID through government guarantees that do not charge guarantee fees.

	CBILS	**BBLS**
Target	SMEs with turnover less than £45 mn	Low level early stage micro businesses and SMEs (no turnover criteria)
Guarantee	80%	100%
Types of finance	Term loans, overdrafts, invoice finance, asset finance	Term loans only
Finance provided	• Maximum value of facility £5 mn • Minimum for term loans and overdraft is £50,001, maximum for asset or invoice finance is £50,001	• Maximum value of facility £50,000 • Businesses can apply for between £20,000 – 25% of their turnover
Interest rate	Set by lenders, will vary	Government set interest rate at 2.5% per annum with no lender levied fees
Application process	Businesses to provide lenders with a borrowing proposal and several supporting financial documents	Businesses to fill out a short self-declared online application form

Initially the government released the CBILS for businesses that were adversely affected by COVID. Businesses were required to apply for financing to government-accredited lenders through a comprehensive process that involved providing supporting financial documents. Lenders would assess the application and set their own interest rate for a term between 3 to 6 years, with a maximum value of £5 million. The eligibility requirements included: 1) UK-base of operations; 2) an annual turnover of no more than £45 million; 3) a viable borrowing proposal; 4) self-certified adverse impact from COVID; and 5) no previous financial distress.

When capital deployment through CBILS was less than expected, particularly to smaller companies, the BBLS was launched. Through a simple application form, SMEs self-register and self-certify on bank portals and can borrow from £2,000 up to 25% of their last 12-month turnover (with a maximum loan available of £50,000). The repayment terms are lax with no fees or interest payments in the first 12 months, and a 2.5% interest rate applied thereafter for a period of up to

6 years (without early repayment fees). The eligibility requirements are simple and only require self-certification, including: 1) UK-based operations; 2) establishment before 1 March 2020; 3) self-certified adverse impact from COVID; and 4) no previous financial distress.

Through the schemes, the UK government offers a partial (80%) or full (100%) government-backed guarantee against the outstanding balance of the facility (both capital and interest) and provides a Business Interruption Payment (BIP) to cover the first 12 months of interest payments. Although businesses are entirely liable for repaying the full loan amount, in the event of insolvency, the government assumes responsibility via the guarantee to the lender for the specified amount. Although the scheme is a government initiative, all loan issuances are through bank intermediaries. Loans are deployed through UK-accredited financial lenders participating in the scheme, most of which are retail banks. The government guarantee effectively removes all risk from the bank balance sheet and thus allows a broader lending portfolio, stimulating the economy with existing capital.

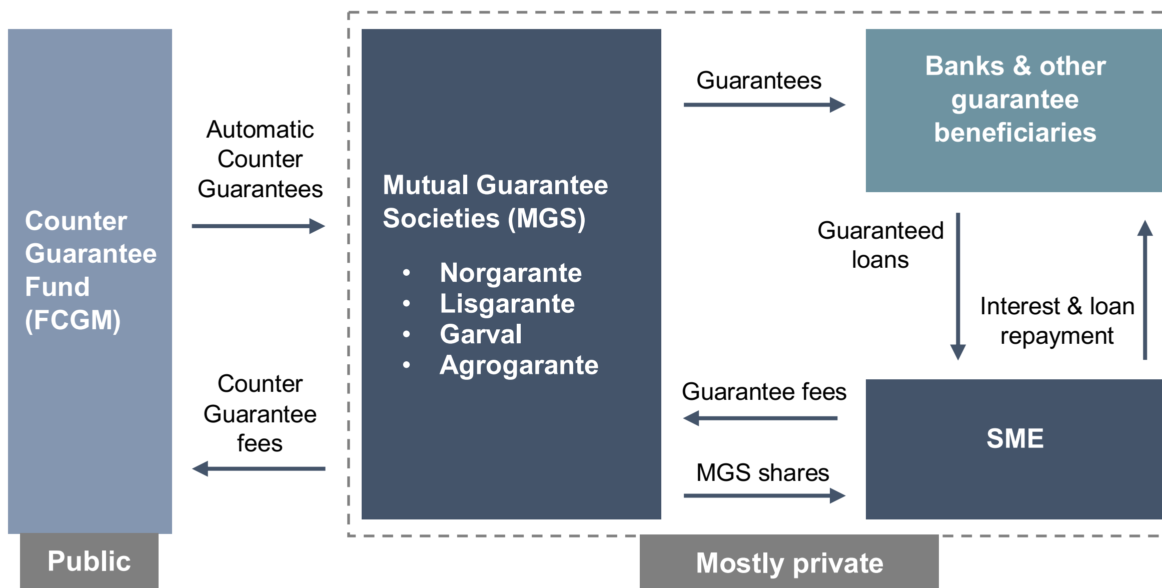
Since inception, government-backed loan schemes have deployed £59.7 billion to businesses across the UK. The BBLS has been most successful, having lent out £34.34 billion to small businesses as of August 2020, whereas CBILS has disbursed £13.08 billion with an approval rate of around 50%.

4.2. *Portugal – Sociedade de Garantia Mútua*

In contrast to the COVID-relief schemes offered by the UK government, Portugal has a long-established guarantee mechanism that was founded in 1994 as an institutionalized long-term solution to support SMEs. The structure below describes the system pre-COVID, however it is worth noting that the scheme has implemented short-term COVID solutions with more relaxed terms.

This guarantee system is essential to the Portuguese economy and represented 0.5% of the country's GDP in 2017. The mutual guarantee system houses an ecosystem of actors designed to ease access to financing for SMEs on a longer-term basis. The Portuguese system of credit guarantee transactions includes three parties: the small business borrower, a financial institution, and a mutual guarantee society (MGSs) (which includes an implicit fourth party as it is backed by the government through the national Mutual Counter Guarantee Fund).

The mechanism works such that the MGS provides guarantees to the bank (or other financial institution that is a guarantee beneficiary) on behalf of the SME. The SME in turn pays guarantee fees to the MGS and receives shares in the MGS at a minimum of 2% of the guarantee value.



As with a regular transaction, banks and other guarantee beneficiaries provide a loan to the respective SME in return for interest and principal repayments. These loans are guaranteed to the financial institutions by Mutual Guarantee Societies (MGS), that are mostly private credit institutions. There are four such societies: Norgarante – focused on Northern Portugal, Lisgarante – focused on Lisbon, Alentejo, Algarve and Madeira Island, Garval – focused on the Center and Azores Islands, and Agrogarante – national coverage but industry focus (agricultural, agribusiness, forestry and fisheries). In exchange for the uncollateralized guarantee provided to the banks on their behalf, SMEs pay guarantee fees to the mutual guarantee societies and invest shares in the respective guarantee society. The system is made possible by the Counter Guarantee Fund (FCGM), a public institution, whose primary function is to use public funds to provide automatic counter guarantees to the mutual guarantee societies of 50-80% and receive fees in return. In this model, risk is undertaken by every actor in the form of fees or investment shares. Spreading the risk amongst all involved parties has been a more sustainable solution for a long-term mechanism to avoid moral hazard or adverse information problems. As a result of COVID, the guarantee system has been altered for public funds to cover 100% of the counter guarantees with the private mutual guarantee systems offering more lax repayment terms and no share purchase requirement.

This model can serve as a solution for a longer-term solution that would resemble a guarantee scheme that has been extended beyond a COVID response. An established solution such as the mutual guarantee system could provide potential for to transform into Guarantee fund that aligns to SME Local Content requirements.

4.3. *South Africa – Covid-19 Loan Guarantee Scheme*

As a response to COVID, the South African government has structured a Loan Guarantee Scheme to assist SMEs. The size of the facility is R100 billion (US$ 5.8 billion) with an option to extend the scheme to R200 billion if required. The purpose of the scheme is to provide SME relief and facilitate SMEs' ability to meet operational expenses (most importantly salaries), supplier contracts, and rent or lease obligations.

The National Treasury has provided a guarantee to the National Reserve Bank, that in turn lends to commercial banks at the repo rate (3.5%) plus a 0.5% credit premium. Through the scheme, banks lend to SMEs at the repo rate plus a fixed spread of 3.5%. The risk is shared between the national treasury and the commercial banks. Commercial banks are restricted from making a profit from the scheme with the 3.5% margin being accrued to provide funding for losses. Banks have discretion on whether they will lend to SMEs and are expected to assess loan applications using existing processes. The size of the loan is calculated based on the SMEs operating expenses, with a maximum loan amount of US$ 5.8 million (R100 million). The draw down period is six months, interest and capital repayments begin six months after the final drawdown, with a loan term of 5 years. The risk sharing mechanism covers losses firstly through margins earned on the portfolio of loans, then by the guarantee fee (set to 0.5%), followed by the first 6% of remaining losses absorbed by the banks and the balance by the National Treasury.

As of early July, only approximately 5% of the guarantee facility had been disbursed to SMEs. Since the scheme was launched participating banks received approximately 33,965 applications, of which 37% were rejected for not meeting eligibility. As initial uptake of loans was lower than expected due to the stringent criteria and low bank appetite for risk, requirements and terms were revamped resulting in increased loan uptake. The changes implemented to increase uptake included extensions of the draw down periods, extension of the repayment holiday to 6 months from draw down, the inclusion of sole-proprietorships as eligible for loans and the test for good standing being moved to a pre-COVID date.

4.4. *Cabo Verde – Fundo de Garantia Mútua (CV Garante)*

In 2010 a mutual credit guarantee system was launched in Cape Verde to support MSMEs and SMEs including a mutual guarantee company and a public fund to provide counter-guarantees. The mutual guarantee society, CV Garante, resembled a credit institution supervised by the Central Bank of Cape Verde and was able to provide independent guarantees to SMEs attempting to access better priced credit with more favourable terms. CV Garante's shareholders were Portuguese Mutual Guarantee Society (SPGM), the Agency for Business Development and Innovation (ADEI), and the Cape Verdean School Social Action Foundation (FICASE). The system was initially established to ease MSME and SME access to bank financing with a 100 million escudos (equivalent of approximately US$ 1 million)[6] facility. Typically, guarantees were

[6] Assuming exchange rate of US$ to CVE of 93.59

provided for up to 50% of the total loan, but the facility allowed for up to 90% coverage for start-ups. Similarly to the Portuguese system, beneficiaries were required to pay a guarantee fee of up to 2% of the value of the loan and purchase shares of CV Garante of at least 3% (which could be sold once the term of the guarantee ended). The maximum loan amount covered by a guarantee was 5 million escudos (~US$ 53,000), with a maximum tenor of 7 years.

The system proved to be ineffective due to its structuring. According to research from the World Bank, it was rendered unattractive for banks as a risk-sharing mechanism. Furthermore, there was uncertainty around the state-supported public counter guarantee's claim pay-out given the requirement of board approval. By 2016, CV Garante had issued only 7 guarantees on loans equivalent to US$ 250,000, of which banks only disbursed funds for two. The rejection rate for the facility was high due to the stringent criteria required by CV Garante as well as the risk-aversion of commercial banks. Processing rates were also reportedly slow seeing as they were paper-based and repetitive going through the same credit appraisal process that banks already conducted.

In 2018, CV-Garante was replaced with Pró-Garante – a new public company with a fund of US$ 10 million offering 80% guarantees. The decision to create Pró-Garante was based on the belief that having the state as the sole shareholder would prove to be successful seeing as the risk would be shared solely by the bank and the state. There is insufficient data available to determine the success of the revised system.

5 OVERVIEW OF MOZAMBIQUE'S EXPERIENCE & LESSONS LEARNT

Through the Banco Nacional de Investimentos (BNI), the Mozambican government has mobilized approximately US$ 14.1 million (MZN 1 bn) through two lines of credit to assist SMEs in mitigating the effects of COVID. The short-term facility targets alleviating operational cashflow constraints with a 1-year, 7% fixed rate and a 6-month grace period. Loans range between US$ 35,000 to 211,000 (MZN 2.5 mn to MZN 15 mn). The medium-term facility is focused on financing operational and working capital requirements with a five-year term at a 5% fixed rate and a 12-month grace period. Loans in this facility range between US$ 105,000 to 634,000 (MZN 7.5 mn to MZN 45 mn). As of August, approximately 200 companies have submitted proposals, valued at more than US$ 22 million. A credit committee has been set up to evaluate funding requests.

Mozambique is receiving COVID relief from a range of development and donor institutions. Examples include the IMFs approval of US$ 15 mn in debt service relief under its Catastrophe Containment and Relief Trust. It also approved the disbursement of US$ 309 mn under the Rapid Credit Facility to assist Mozambique meet urgent balance of payment and fiscal needs resulting from the COVID-19 pandemic. Mozambique is also a part of the African Development Bank's commitment of US$ 138 million to four countries in Southern Africa. The Multi-Country Covid-19 Response Support Program aims to fund healthcare and support SMEs. In Mozambique, and in the wider African region, an increased amount of donor funding is being devoted to COVID response. Donor financing is playing a key role in COVID relief mechanisms, particularly for that are struggling to put forth COVID relief packages using public financing alone.

Guarantee mechanisms are not novel in the Mozambican market. Commercial banks have often partnered with donors to set up specialized credit lines for SME's through guarantees. Recent examples of bank-supported lines include KfW's support of Millennium BIM's agriculture line of credit (2020), the Dutch Embassy and Agência do Zambeze's support of GAPI's line for the rice value chain (LIFINCA) (2020).

6 A GUARANTEE FACILITY AS A SOLUTION FOR SME COVID RELIEF IN MOZAMBIQUE

Although the BNI fund and other initiatives provide necessary economic relief, they represent only a fraction of what is required for full support potential economic losses. Leveraging existing capital and creating a structured guarantee system has the potential to catalyze bank capital and could be the solution to providing short-term relief and promoting long-term growth in the private sector. It is estimated that the excess liquidity in the Mozambican banking system ranges between MZN 50 – 60 billion (US$ 700 – 840 million) at any given moment[7]. This capital is essentially underutilized in the economy and could be used to bolster growth. Due to the urgency of COVID's impact on SMEs throughout the country, it is important to act quickly while deploying financing in an efficient manner. The response should therefore be designed to accelerate the unlocking of existing bank capital and liquidity in the market, with support from the Central Bank and the wider Government.

In order to address the short-term needs of SMEs, a tiered guarantee scheme would serve as a tool to significantly assist the local economy to weather the economic shock of COVID as well as boost SME prospects. To fully satisfy the prerequisites of such a guarantee mechanism, perhaps a Government solution paired with a multi-donor collaboration would be an ideal approach. In leveraging the existing capital and liquidity in the market, the real cost of a guarantee mechanism is much lower than expected. The guarantor has to set aside an estimated loss reserve (at a reasonable and conservative level). In this sense, the associated risk of the fund is, conservatively only a percentage of the total financing released.

Based on estimates of excess liquidity 'trapped' in the banking system, establishing a full guarantee facility with an overall capital provision of approximately US$ 500 million could free up capital for SMEs that is otherwise untapped. Conservatively estimating a loss rate of approximately 12%, nearly double the bank loss rate at the height of 2016 (7%)[8], and assuming

[7] Assuming exchange rate of US$ to MZN of 71, and assuming a range depending on the time of month. Data retrieved from the consolidated bank information on the Central Bank website (en_106_SICredito.xls)

[8] The rate of bank non-performing loans to total gross loans in 2016 was reported at 6.9 (≈ 7%) according to Trading Economics (sources World Bank collection of development indicators that are 'officially recognized sources' from August 2020). We can conservatively estimate a loss rate of approximately 12% calculated using the bank loss rate at the height of 2016 (7%) + a buffer (5%).

a 100% government/donor loss absorption, approximately US$ 60 million would be required as a guarantee. This implies that around 8x the initial capital would be mobilized to enter the economy[9]. Depending on the interest rates of the loans, guarantee fees, and risk-sharing with financial intermediaries, a lower guarantee could be provided to unlock excess liquidity for SMEs.

As previously mentioned, while guarantee systems are present in the market, they have not always proven to be successful due to a number of existing challenges. Foremostly, the majority of Mozambican SMEs remain informal and lack proper financial documentation, a key criterion for loan consideration by commercial banks. It is important to note that this proposed guarantee fund, in the short-term, will serve as a COVID-relief mechanism to unlock existing liquidity in the banking system and unfortunately will not address the lack of investment-ready SMEs that are unable to access financial products. The target is to release excess liquidity currently in the commercial banking system for businesses that are already banked and have demonstrated capacity to be financed.

It is important to distinguish between a rescue fund intended for the short-term (as proposed herein) versus a steady-state solution for SMEs. Due to the urgency of a short-term economic response to COVID, the proposed guarantee scheme should incorporate structural elements that facilitate quick disbursement of capital, efficient credit assessment processes, a high percentage of guarantees (ideally, 100%) and lax requirements for SMEs. Over time, if the facility proves to be successful, changes should be incorporated to accommodate for a medium to long-term solution complementing local content programs and the more sustainable investment into SMEs. To address the previously mentioned challenge of financing less formal or underbanked SMEs, a separate Technical Assistance (TA) facility could be considered to support investment-readiness of SMEs and better position them for the credit assessment process imposed by commercial banks. Furthermore, a longer horizon could mean a larger facility with lower guarantee provisions, more refined credit analyses and parameters, and other characteristics better suited for an established solution. The ultimate goal would be to have a dynamic fund that can suit the needs of businesses in the Mozambican market (contingent on legalities around changing structures).

7 IMPACT EFFECT

A guarantee instrument is characterised by a high leverage effect, meaning that the amount of public capital initially invested in the guarantee will mobilize a much larger amount of commercial capital in the market. Because the guarantee provider is willing to absorb the initial projected loss, the lending opportunity is significantly de-risked, and causes commercial banks the ability to catalyse larger sums of capital to SMEs that they would not otherwise be able to. This phenomenon is referred to as the multiplier effect – the increase in spending will result in a larger effect that the amount initially invested. In this sense, inserting upfront capital will significantly de-

[9] Assuming the guarantee fund is US$ 500 million, and the required guarantee is US$ 60 million, the multiple is ~8.33x

risk the opportunities and survival for SMEs that are impacted by COVID, and cause a major multiplier effect throughout the economy.

Various actors in the ecosystem can benefit from this scheme – foremostly, SMEs will benefit from relief funding during COVID. Thousands of SMEs could benefit from the unlocking of excess liquidity in the market as illustrated above. The Government also benefits from participating in a guarantee scheme, establishing an enabling environment for business and helping protect a key segment of economic growth. Commercial banks also benefit through putting their deposits to work without increasing risk exposure. This relaxes their capital requirement and other loan requisites thus allowing them to more freely lend out to SMEs. Donors and other non-governmental institutions can also work towards their mandates of providing economic relief and development through the support of a guarantee facility.

The Mozambican financing ecosystem is broad and complex, and clearly extends beyond commercial banks. Other ecosystem actors (such as microfinance institutions, mobile money providers, insurance providers, solar home system companies, etc.) play a key role in the financing ecosystem, particularly for MSMEs and SMEs. It is worth recognizing the exclusion of these actors will unsurprisingly mean that the facility will not be able to serve certain segments of the economy (namely MSMEs and SMEs that do not have a sufficient scale to be eligible). Seeing as this particular facility aims to address the excess liquidity trapped in the commercial banking system for the purposes of COVID, bringing in other ecosystem actors remains outside of scope in the short-term. As mentioned above, a medium to longer term structure could incorporate a more inclusive approach for a more sustainable mechanism.

8 TOPICS TO BE DISCUSSED WITH STAKEHOLDERS

- What are reasonable default rates for a proposed facility?
- What would be the potential average size of loans? What would the range of size of loans?
- How much money should be mobilised for a facility/what should the size be?
- What should the interest rate/cost of debt be?
- Should SMEs pay fees?
- Should there be an equity mechanism in place?
- Should technical assistance be considered in a facility?
- What eligibility rules should be considered?
    1. Can only be disbursed through registered financial commercial entities (banks with X amount of turnover)
    2. Recipient has to have an account with an accredited bank for X period of time
    3. Eligibility of uni pessoais
    4. Loan cannot exceed x% of revenues/reported IVA/etc.
    5. SMEs with at least $100k+ revenues

6. Difficult but could include - Portfolio of loans will be aligned to GDP composition to ensure sectoral diversity

- What is the appetite amongst stakeholders in participating? How much potential loss would the government/donors need to cover?
- What are agreed next steps for involving additional actors (donors, BdM, etc.)
- What is a practical timeline for next steps (such as an initial funding commitment, creating a task force, etc.)
- What will be the impact on imports and FX availability? (as a result of the credit line, imports could increase, consequently putting pressure on FX availability and causing a spike in inflation)