

## **SME Finance Working Group – Meeting Minutes**

**Date:** July 22, 2021  
**Time:** 2:00 pm – 3:00 pm, Maputo time  
**Platform:** Zoom

**Attendees:** 30 Attendees (see list in annex)

### **Agenda:**

- Introductions – Danila Boneva, MSP Secretariat
- Presentation of Local Content Guarantee Fund for Mozambican Companies - Bernardo Aparicio from AMB/ABSA
- Presentation of AFD's EURIZ Loan Portfolio Guarantee - Ryno Byleveldt from AFD)
- Discussion and Next Steps – Danila Boneva, MSP Secretariat

### **Presentation: Local Content Guarantee Fund for Mozambican Companies – Bernardo Aparicio, AMB/ABSA**

- A guarantee facility with the objective of serving as a long-term mechanism to finance SMEs beyond the current risk appetite of the commercial banks, in particular, those working in sectors or segments of the economy that are critical for addressing its structural problems, including, but not limited to the industry sector, involved in import substitution production, SMEs undertaking exports, greenfield projects, and/or carbon capturing and offsetting projects. The concept was originally developed as a response to the COVID-19 pandemic with the goal of unlocking trapped excess commercial bank liquidity (US\$ 700-840m) in the Mozambican market by setting up a guarantee fund to the tune of USD [100+ million] and a first-loss guarantee of [20%] to be undertaken by development partners to de-risk the loans provided by the commercial banks and allow for increased risk appetite.
- A fund of USD 100 million has the potential to unlock close to USD 500 million in commercial lending
- It presents itself as a relief to SMEs, evidenced by the recent 200 company survey conducted by the MSP, which highlights “lack of access to finance” as the biggest barrier to resumption of activities in Cabo Delgado, followed by the uncertainty caused by the conflict.
- The next steps in relation to the Fund are to i) approach the Government of Mozambique and development partners and ii) fundraise; iii) develop the Fund's financial model.

### **Presentation: EURIZ Loan Portfolio Guarantee – Ryno Byleveldt, Agence Française de Développement**

- AFD, the French Development Agency, boasts an AA Credit Rating and brings experience from 80 countries (over 50% in Africa). PROPARCO is its private sector financing subsidiary.

- Why guarantees? SMEs have limitations such as lack of formalization and little collateral. Financial institutions usually consider the SME market as one that is too risky. PROPARCO comes in with a risk sharing guarantee, which can cover up to maximum 75% of the loans to SMEs with the objective of lessening the risk burden of banks in securing collateral from SMEs or other requirements that this segment struggles to meet.
- The guarantee facility is also viewed from a sustainability angle and responds to longer-term financing needs of SMEs (e.g. CAPEX investments over 6-7 years horizon) de-risking the banks loans in those cases.
- PROPARCO undertakes a due diligence assessment of its local partners in the countries it operates in and tends to select banks with experience in provision of loans to SMEs in particular sectors (agriculture, green economy, digital solutions, etc.) and with a focus on SMEs that are women-and youth-led SMEs, start-ups, among others.
- PROPARCO has deployed EUR 1.1 billion of guarantees in 42 countries, mostly in Africa and has more than 12 years of experience in this area. One of its products is called **EURIZ** and it has been deployed successfully in Mozambique. The EURIZ fund is a silent guarantee and it does not look to finance SMEs that are not within banks current scope.

## Discussion

- **Taking guarantee funds to scale:** PROPARCO examines the historical performance of the partner banks in a given sector and in financing SMEs. It usually starts with smaller tickets in order to test the market and the partner and progresses over time.
- **How costly are guarantees and how can banks be incentivized to service SMEs:** In the case of PROPARCO, the partnering banks have to pay a set-up fee to prove that they are committed. In addition, AFD will provide technical assistance to the banks to further develop their capabilities in specific sectors (e.g. agriculture). What is key is for the banks to have a clear strategy for the sector. It is very unlikely that banks will venture outside of their strategic priorities even with grant funding made available.
- **Local Content Fund and the economic challenges facing SMEs in the country:** The priority is for the Fund to be a long-term vehicle and address the systemic issues, undermining the economy's growth and serve as a catalyst for investments in the local currency and overcoming dependency on external financing.
- **Local content fund and micro-financing:** The Fund's intention is not to compete but rather to finance projects out of the banks' radars and the radars of micro-financing institutions. Micro companies will also be targeted by the Fund.

## Next Steps:

- Next working group meeting will feature a presentation by Sergio Dista, UK Government, and a fund initiative by Hollard Insurance. Date and time will be communicated as soon as possible to the members.
- AMB to continue discussions about the Local Content Fund with the Government of Mozambique institutions and development partners, as well as work on its financial model.

**Annex 1 – Meeting Participants:**

Alfredo Magaia  
Avelino Jequé  
Bernardo Aparicio  
Breznevia Mascarenhas  
Cloé Milani  
Damião Ribas  
Danilo Abdula  
Elias Mondlane  
Elisio Langa  
Fanile Shongwe  
Higino Machango  
Janine Espin  
Ludimila Come  
Manuel Santos  
Milan Devji  
Nadia  
Pete Guathier  
Rachi Picardo  
Rosario Marapusse  
Rui Amaral  
Ryno Byleveldt  
Sergio Dista  
Vania Dava  
Azmyra Merchant  
Danila Boneva  
Eléonore van Tulder  
Ian Khron  
Julio Sethy  
Luana Manso  
Sidney Bonzo