



CENTRAL BANK of SOLOMON ISLANDS
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Understanding the finance facilities/schemes to support MSMEs.

Access to finance is often identified as one of the challenges which limit the growth of Micro, Small & Medium Enterprises (MSMEs), or Small Businesses as it is commonly known.

To assist in improving access to finance for MSMEs, the Solomon Islands Government and the Central Bank of Solomon Islands (CBSI) have established several finance facilities or schemes as part of the MSME Working Group initiatives set-up under the National Financial Inclusion Taskforce (NFIT) to provide MSMEs with more avenues for accessing finance.

The schemes are designed mainly to support financial service providers such as the commercial banks, credit institutions and the development banks to offer funding for low interest rate loan products or guarantee support for security/collateral shortfall so that small businesses can obtain loan/credit.

Within their respective scopes, one would have noted that the schemes are mostly open to all MSMEs, while others have a specific target population such as Youths and Women owned MSMEs. According to the Small Medium Enterprises (SME) Policy 2016, an MSME is defined as a registered or unregistered business that employs between 1-50 people, has an annual turnover between SBD 0.3-50 million and a capital investment of not more than SBD7.5 million. This definition encompasses all sizes of enterprises or businesses. MSMEs need finance for many reasons, which among others includes, working capital, cash flow support, and expansion.

Some of these schemes have been in operation for several years, while others have been recently introduced. They include the **Credit Guarantee Scheme**, **MSME Credit line facility**, and the **Export Finance Facility**.

This article will explain how these schemes work and ways in which MSMEs can access the schemes.

1. The Credit Guarantee Scheme (CGS).

The Credit Guarantee Scheme was established by the Solomon Islands Government through the Ministry of Commerce, Industry and Labour Immigration (MCILI), and the Ministry of Finance and Treasury (MOFT). The scheme is administered by the Central Bank of Solomon Islands in partnership with these Financial Institutions: Development Bank of Solomon Islands (DBSI), Credit Corporation Solomon Islands (CCSIL), ANZ Banking Group, Bank South Pacific (BSP) and Pan Oceanic Bank (POBL).

Before delving further, let us familiarize ourselves with several terms that we will use throughout within this context.

Credit worthiness assessment – an assessment undertaken to determine an SMEs ability to repay loans/credit based on information provided in their loan application, subject to PFIs lending conditions.

Security/collateral – an asset offered by an SME as a means to secure loan recovery payments when a loan is in default or in other words, when the SME cannot repay the loan. Security/collateral gives confidence to PFIs that an SME has the financial security in which they can recover, when an SME is unable to fully repay its loan within the specified time period (or defaulted).

Guarantee – A formal assurance or commitment by the Credit Guarantee Scheme that a collateral shortfall will be met by or paid for by the CGS.

Partner Financial Institution (PFI) - refers to any of the Banks or Credit Institutions who have an agreement with the CGS.

Purpose and how it works.

The main purpose of the Credit Guarantee scheme is to offer a 90% percent guarantee to the unsecured portion of security resulting from collateral shortfall. This is to enable SMEs who do not have enough collateral to secure their loans, to obtain credit or loans from the Partner Financial Institutions (PFIs) through a collateral guarantee.

How to apply

To apply for the (CGS) the SME follows the normal process of applying for a loan at any of the PFIs. The PFI will conduct their own creditworthiness assessment based on their requirements and conditions, and should there be a collateral shortfall, the PFI will submit a nomination to the CBSI to guarantee the unsecured portion resulting from the shortfall.

Per the assessment by PFI, CBSI will do compliance checks on the nomination submitted based on requirements of the CGS, and if the nomination satisfies the scheme's eligibility, terms and conditions, an approval will be given for a guarantee. It is important to note that under this scheme, CBSI will only provide approval for guarantees while the actual lending is done by the PFI.

When a guarantee is approved, there is a fee for borrowers to access the guarantee that partly covers the Scheme's administration costs. The fee is 2% of the guaranteed amount or a minimum of \$1,000.

To help SME understand this process, let us illustrate with an example.

Let's say John owns a Copra buying business and wants to expand his business into downstream processing such as coconut oil production. John approached a PFI and submitted his business loan application. Initially, John wanted to loan \$50,000 however, the value of his security only amounts to \$40,000 which means his collateral shortfall (unsecured portion) is \$10,000. With this, John will not be able to obtain a loan unless he has additional security to make up for the collateral shortfall. If John is referred by the PFI to the Credit Guarantee Scheme, a nomination for guarantee will be submitted to CBSI. After CBSI conducts its due diligence checks and approves the nomination, the CGS will guarantee 90% of the collateral shortfall (\$10,000) which is \$9,000. The fee to be paid by the PFI is 2% of \$9,000, which is \$180 or the minimum fee required. The remaining 10% of the collateral shortfall, which is \$1,000 will be borne by SME.

It is important to note that the guarantee will only be paid when the customer defaults and PFIs have exhausted all recovery options.

Partner Financial Institutions (PFI): Development Bank of Solomon Islands (DBSI), Credit Corporation SI Ltd, Bank South Pacific (BSP), ANZ Solomon Islands Ltd, and Pan Oceanic Banking (POB).

Eligibility

- *The guarantee levels on the unsecured portion of the provided credit are as follows: 90% guarantee for all eligible SMEs and 80% owned and controlled by indigenous Solomon Islanders.*
- *All Business ventures involving both goods and services in most industry sectors.*

Exceptions

- *Gambling, alcohol and tobacco related activities.*
- *Harvesting and logging of indigenous forest, other than timber milling and other downstream processing activities.*
- *Agriculture, resource development and seafood projects that do not have current government approvals/licenses.*

Terms and conditions

- **Guarantee:** *The minimum guarantee is \$50,000 while the maximum is \$300,000.*
- **Cost:** *The administration fee charge is 2% of Guaranteed amount or a minimum of \$1,000.*
- **Application requirements:** *As per PFI's existing application requirements for SMEs or small businesses.*

Benefits for SMEs

- Provide access to credit for SMEs by offering collateral support to obtain credit to finance daily business activities or expansion.
- SMEs can access credit from any of the PFIs.
- Suitable for start-ups, however, on a case-by-case basis depending on PFIs requirements.

2. The MSME Credit line Facility

The Credit line facility was established in 2020 by MCILI with DBSI. Through this partnership, MCILI has set up an MSME Finance facility with DBSI. The facility enables MSMEs to access finance from a range of credit line facilities offered by DBSI, at an interest rate of 8%.

Who can apply?

The scheme is open for all MSMEs in the productive sectors (Agriculture, Fisheries, Tourism, Forestry and Cooperatives) including women inclusion and youth entrepreneurship initiatives.

Terms & Conditions

- *Interest rate: 8%*
- *Loan range: \$10k - \$3m.*
- *Financial Term: 3 - 6yrs.*
- *Application requirements: As per DBSI existing loan application requirements for MSMEs.*

Partner financial Institution (s): Development Bank of Solomon Islands (DBSI).

How to apply

MSMEs can apply as per the normal process through DBSI. Based on the facility's criteria and consultations with the MSME, credit/loan funds will then be provided by DBSI.

One of the benefits of this facility is that repayments are made flexible to suit MSMEs schedule, provided that it does not exceed the term of the loan.

3. Export Finance Facility (EFF)

In collaboration with the MCILI, the CBSI has also established an Export Finance Facility to support MSMEs or small businesses who are undertaking export activities. This facility offers working capital needs for exporters in any of the eligible sectors that facilitates the export process and customers will have access for the purchase of equipment and expenses related to exports. The purpose of the facility is to encourage locally owned MSMEs to:

- engage in more exporting activities in various sectors,
- increase exports tractions (in terms of volume, value and commodities)
- Stimulate growth in credit to the MSME segment, and
- Provide an opportunity for farmers and rural communities to benefit from external trade.

The Facility would enable local owned exporting MSMEs to access credit financing through their respective financial institutions at a more favourable rates of interest, much lower than the existing market interest rates.

Who can apply?

MSMEs who require finance support for export activities are eligible to apply.

Eligibility

Locally owned, new and existing exporting MSMEs that undertake the following activities are eligible:

- export primary goods from the following sectors (agriculture, fisheries, forestry particularly sawn timber, and mineral);
- export secondary or manufactured goods;
- export other niche exports such as wildlife, handicrafts, etc;
- act as agents and distributors for their clients; and
- provides certain specific professional services (e.g., architectural and engineering services) for international clients.

Current Approved lender (s): Development Bank of Solomon Islands (DBSI).

How to apply

MSMEs can apply through any of the approved lender, through the normal process of applying for credit/loans. An approved lender is a financial institution (Banks or Credit Institutions) that has an agreement with CBSI to become a partner in the scheme.

Terms and Conditions

- **Application requirements:** subject to Approved lender(s) existing loan requirements for exporters.
- **Collateral:** Export documents (bill of lading, export agreements, sales contract etc.,) for short term borrowing. In the case of DBSI, Property collateral/mortgage is paramount in this case.
- **Loan term:** 12 months, and can be extended for additional 6 months, provided that the approved lender informed CBSI five working days before the loan term expires.

- **Interest rates:** Approved lenders shall charge eligible MSMEs an interest rate not more than 7% per annum.

These various schemes are aimed at improving access to finance for MSMEs and promoting growth of the MSME sector. These schemes assist MSMEs through credit/loan guarantees, favourable interest rates, and flexible terms and conditions. As can be noted, though the schemes encourage flexibility in terms credit/loan requirements, the credit/loan requirements for MSMEs follows the requirements of each Banks or Credit Institutions who are approved partners of each scheme.

Therefore, MSMEs are strongly encouraged to visit and discuss their finance needs with the partner financial institutions/approved lenders to better understand their requirements.

To know more about these schemes, MSMEs are encouraged to contact the schemes respective Partner Financial Institutions (PFIs).

Issued by the MSME Working Group Secretariat

About the MSME Working Group under the National Financial Inclusion Taskforce.

The Micro, Small, Medium Enterprises Working Group (MSMEWG) Secretariat is a body set up under the National Financial Inclusion Taskforce (NFIT) within the CBSI to coordinate programmes of the MSMEWG, which is guided by the National Financial Inclusion Strategy 3, 2021-2025 related focus areas and the Solomon Islands SME Policy 2016. The MSMEWG comprises of stakeholders from the Solomon Islands Government relevant ministries, Private Sector, Financial Sector, NGOs, donor & development partners, who are endeavouring to improve access to finance for MSMEs in all sectors through policy interventions, product design and capacity building.

Current members of the MSMEWG include: Ministry of Commerce Industry, Labour & Immigration – Chair (MCILI), Ministry of Finance & Treasury- Economics Reform Unit (MOFT-ERU), Ministry of Culture & Tourism (MCT), Ministry of Fisheries, Marine and Resources (MFMR), Ministry of Agriculture and Livestock (MAL), Ministry of Environment, Climate Change, Disaster Management & Meteorology (MECDM), BredBank, Development Bank of Solomon Islands (DBSI), Solomon Islands Small Business Enterprises Council (SISBEC), Solomon Islands Chamber of Commerce and Industry (SICCI), Youth Entrepreneurship Council of Solomon Islands (YECSI), Strongim Bisnis, United Nations Capital Development Fund (UNCDF), and the Central Bank of Solomon Islands (CBSI).