REPUBLIC OF LIBERIA
LIBERIA INVESTMENT, FINANCE AND TRADE PROJECT (LIFT-P)
MINISTRY OF COMMERCE & INDUSTRY (MoCI)

INSURANCE PLAZA, 5TH STREET, SINKOR
MONROVIA, LIBERIA

Request for Application

Line of Credit for MSME Financing

CALL

The Government of Liberia (GOL) through the Central Bank of Liberia (CBL) in collaboration with the Ministry of Finance and Development Planning (MFDP) and the Project Implementation Unit (PIU) at the Ministry of Commerce and Industry (MOI) invites application from banks and non-bank financial institutions to participate in a Micro, Small, Medium Enterprises (MSME) Lending Program launched by the GOL.

Background

The GOL, through the MOCI, is implementing the Liberia Investment, Finance and Trade Project (LIFT-P) with financing from the International Development Association (IDA) for US$20 million equivalent as grant and US$20 million as IDA credit to the Republic of Liberia. The LIFT-P is the first World Bank project aimed at supporting the private sector in Liberia, particularly the MSME sector.

The aim of the project is to support the government's strategic objectives to promote private sector development and growth. Accordingly, the project development objective (PDO) is to improve the investment climate, expand sustainable access to finance, promote the digitalization of financial services, and increase the efficiency of trade in Liberia. The project implementation is coordinated by the PIU at the MOCI. A Project Steering Committee (PSC), chaired by MOCI and comprising of CBL as Co-Chair, MFDP, LRA, NIC, NBC, LIBA, Chambers of Commerce, provides a strategic oversight for the project. The full implementation of the project commenced on 28th October 2022 and is expected to run for five years. In keeping with the project implementation manual, the CBL serves as the Apex Institution responsible for the evaluation of applicants and monitoring of the MSME program.

Project description

Project Development Objective

The Development Objective of the LIFT project is "To improve the investment climate, expand sustainable access to finance, and increase the efficiency of trade in Liberia".

Component 2 of LIFT-P: SME Access to Markets and Finance (US$11 million)

This component seeks to capitalize on emerging national, regional, and international trade opportunities and the existence of Foreign Direct Investment in Liberia, to offer a combination of technical assistance and finance to support SMEs to access markets, improve capabilities and increase productivity. Subcomponent 2.1 (US$4 million) is supporting the upgrade of the capabilities of SMEs operating in supply chains/clusters to meet the purchasing needs of larger buyers in domestic and export market while subcomponent 2.2 is supporting an MSME Lending scheme, which will provide lines of credit (LOC) to participating financial institutions (PFIs) to the tune of US$ 6 million to on-lend to eligible MSMEs. Additional US$1 million will be availed for providing technical assistance to the CBL and PFIs.

The specific objective of the MSME Lending Scheme is to improve access to finance through capacity building of selected financial institutions to better serve underserved MSMEs through: (a) provision of loans (Sub-Loans) to MSMEs to on sustainable terms implement Subprojects; (b) enhance the capacity of local private sector financial institutions to lend profitably to MSMEs and objectively measure outcomes and (c) strengthening the capacity of CBL in implementing the MSME Lending Scheme through training and advisory services. By providing technical assistance and training, the project will help to improve PFIs loan delivery systems, risk management, and support innovative products for MSMEs. The project should contribute to more affordable, sustainable rates of interest on loans, with grace periods and longer maturities based on a better understanding of credit risk to MSMEs.

More specifically, this sub-component aims to achieve the following:

a) Establish a permanent development financing vehicle based on market principles, and which lends at an affordable rate to sound PFIs. Moreover, the LOC will allow financial institutions to borrow at an affordable cost and on-lend to eligible MSME borrowers at the lower end of the range of market rates with extended maturities.

b) Target MSMEs managed or owned by women entrepreneurs, ensuring that at minimum 50 percent of loans are on-lent to such women-led MSMEs.

c) Encourage long term financing by providing loans with a maturity of up to five years to PFIs and provide related technical assistance and training to all interested financial institutions.

The MSME Lending Scheme subcomponent has been designed based on the lessons learned from the previous World Bank operations in the country, including the "Liberia MSME and Rural Finance post Ebola Reconstruction" Emergency Response trust fund. The lessons of the Ebola Response MSME project that have been incorporated into the component design include: (i) the need for a dedicated Apex Institution since financing is open to all interested sound financial institutions (FIs) that complete the due diligence process, and (ii) performance-based tranches of loan funds are provided to ensure the efficient flow of funds through PFIs directly to firms in the form of loans for productive purposes. By reaching out to as many retail financial institutions as possible, the apex will create the kind of competition in the sector that leads to innovative products and lower costs for sub-borrowers, as well as providing technical assistance to assist the PFIs with product and process innovations and improvements.

Coverage

Lending to PFIs by the Apex under the LOC will be based on the following parameters:

a) **Target MSMEs:** Only MSMEs as per the national definition[1] of MSMEs will be eligible as potential sub-borrowers. In the event of a change in the national definition or classification of micro, small and medium enterprises, the Steering Committee may hold an extra-ordinary meeting to revise the maximum size and duration of the loan that PFIs can offer based on the revised classifications for MSMEs. The proposed revisions will be based on the potential market assessment that will need to be submitted by PFIs to CBL.

b) **Target PFIs:** Participation in the project is open for all interested commercial banks and Micro Finance Institutions (MFIs) provided they meet the eligibility criteria. MFIs and commercial banks that would not qualify initially, may be able to participate at any later point by submitting a Letter of Interest to the CBL, once they have improved their performance to meet the eligibility criteria. Thirty-five (35) percent and sixty-five (65) percent of the LOC shall be allocated to MFIs and banks respectively. This threshold can be revised by the Steering Committee (with "no objection" from the World Bank), if deemed necessary and after presenting evidence demonstrating the need for such revision.

c) **Geographic coverage**: the LOC will support loans to MSMEs located in all regions of Liberia ensuring that the facility is not limited just to urban areas.

d) **Loan portfolio:** refinancing of existing loan portfolios of PFIs will not be permitted. LOC will go towards supporting issuance of new loans only.

e) **Duration of loan to PFIs:** Based on the maturities of loans in the proposed portfolio, the MSME Lending Scheme will offer loans to PFIs for maturities of up to five (5) years, depending on PFIs' liquidity needs.

f) **Duration of loans to MSMEs**: PFIs will need to demonstrate how the requested maturities will be passed on to MSMEs. The minimum and maximum maturities will be 15 months and 5 years respectively**.**

g) **Maximum size of the individual loans to MSMEs**

h) **MSMEs:** The LOC will only finance loans issued by commercial banks that do not exceed US$ 100,000 (or LRD equivalent). For MFIs, the maximum loan size shall not exceed 4% and 5% of their capital for individuals and businesses respectively.

Participating Financial Institutions' Responsibilities

Credit will be intermediated by the PFIs. The PFIs will be responsible for adhering to the reporting requirements of the CBL and ensure that safeguards measures are followed as outlined in the Environmental and Social Safeguards Management Framework (ESMF) of the project. Such measures aim to ensure that the lending activity undertaken is consistent with the safeguards monitoring capacity that can be established. Each PFI will be required to have an internal environmental and social management system to identify substantial to high-risk subprojects and ensure adequate measures are employed in keeping with the E&S standards of the World Bank.

Sub-loans shall be: (i) denominated and repayable in United States Dollar (USD) or Liberian Dollar (LRD); (ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate determined by the PFI to be the market rate under a transparent framework, and no lower than the most

[1] 1 Final MSME Policy Liberia 2011-2016.pdf (moci.gov.lr)

recent savings rate published by the CBL plus two percentage points or another low-risk reference interest rate mutually agreed upon by CBL and the World Bank; and (iii) repayable over a period not exceeding five years from the date of the Sub-loan Agreement, inclusive of a grace period not exceeding one year, unless mutually agreed upon by CBL and the World Bank.

PFIs will determine the interest rate on the MSME sub loans and will assume the full credit risk. The interest rate shall be adequate to cover their costs of borrowing from the MSME Lending plus a reasonable risk-adjusted spread and profit margin. **In their applications, PFIs are to clearly state the effective rate (nominal rate plus all charges) at which they intend to on-lend to MSMEs. The PFIs proposed lending rate stated in their applications amongst other factors will inform the final selection decision of the CBL.**

The E&S risks of LIFT project is classified as "Moderate". Therefore, the potential environmental and social (E&S) risks and impacts associated with the project/sub-projects activities are not expected to be significant, are largely temporary, reversible and are of low magnitude. The E&S risks can be easily predicted and mitigated. E&S due diligence including screening and assessment procedures must be commensurate with the nature, scale, and magnitude of potential adverse environmental and social risks and impacts likely to arise from the project activities and sub-projects that will be supported under the Project. Each PFI must have in place a functional Environmental and Social Management System (ESMS) led by a high-grade official. At minimum, the ESMS of the PFIs should comprise the following elements: (i) environmental & social policy; (ii) clearly defined procedures for the identification, assessment and management of the E&S risks and impacts of subprojects (including, screening tools for sub-projects to compare to the negative list and E&S risks); (iii) organizational capacity and competency (including environmental & social personnel); (iv) monitoring and review of E&S risks of subprojects and the portfolio; and (v) external communication mechanism. The PFIs will have a responsibility to screen all subprojects and activities it will consider funding using the checklist(s) developed as part of their ESMS.

The approval of the ESMS of each PFI as part of the due diligence for PFIs selection will be a requirement for access to funds from the LOC. Hence, the selected PFIs shall have designated staff for environmental and social risk, whose duty will entail ensuring an acceptable level of environmental and social risk management of sub-projects. Screening forms will be applied to select the most credible sub-borrowers with respect to both the PFI's requirements and the project, in a fair and transparent manner. It is expected that there would be consistency in the standards in order not to confuse potential sub-borrowers. Additionally, it will be the responsibility of the E & S risk officer(s) to advise the selected sub-borrowers on the needs for conducting Environmental and Social Impact Assessments (ESIAs), if required, and any follow-up on projects will rest with the PFIs based on processes and TORs agreed with the Apex. (ESIAs are required when the sub-borrower intends to expand the physical footprint or change the production technologically in ways which may present significant E&S challenges and risks.) Given that the project is rated moderate on E&S risks and impacts, any subproject or activity funded by the PFIs cannot have a substantial or high environmental and social (E&S) risks and impacts. The PFIs will therefore be guided by the project exclusion list. All sub-projects should also meet national E&S requirements.

This project is classified by the World Bank as a "specific purpose lending" portfolio for the purpose of meeting the World Bank's Environmental and Social Framework (ESF). To meet the requirements of Environmental and Social Standard 9 (ESS9) of the ESF, the PFI will be responsible for screening of the subprojects and share with the CBL the list of subprojects documenting their E&S compliance. The CBL will review a sample of the list of subprojects and sub-borrowers to ensure that project requirements are met in terms of Environmental and Social Risks, rating, and mitigation as needed. Any disagreements between PFIs and CBL on the application of the ESMS should be referred to the World Bank for clarification.

All PFIs will go through an environmental and social safeguards training before they start disbursing loans from the LOC. As part of their environmental and social assessment process, PFIs should consider parameters related to natural environment (air, water, and land), human health and safety, social aspects (involuntary resettlement, indigenous people, and cultural properties and inclusion) and transboundary and global environmental aspects.

Sub-borrowers' Responsibilities

The MSMEs benefiting from financing provided under the project will be required to provide PFIs requisite information for the completion of E&S screening requirements and will be responsible for obtaining and implementing any conditions of consents, including preparing ESIAs, Environmental and Social Management Plans as necessary, and implementing any mitigation measures required as a condition of the loans provided by the PFIs. The participating MSMEs will also be required to provide relevant information to the PFIs for the fulfillment of E&S risk classification and sub-project monitoring activities. The level of monitoring by the MSME will match the level of risk of the sub-project per the ESMS screening. The nature and location for the use of funds will be defined in response to the applications for funding. Most of the micro and small enterprises will be largely involved in commerce with minimal safeguards issues, however, support for agricultural activities and other sectors may involve environmental and social safeguards issues.

Due Diligence/Selection Requirements

In addition to the eligibility criteria annexed hereto, PFIs that are to participate in the Facility shall meet the requirements outlined below:

1. The due diligence process shall include a review of internal systems, experience with the targeted sectors, a reliable monitoring system for loan portfolio, and sound performance of the loan portfolio.

2. Core Non-Financial Eligibility Conditions for PFIs (See Annex 1 for more eligibility criteria):
   a) **Adequate Organization and Governance** – "fit and proper" owners; competent management; adequate organization and institutional capacity with adequate managerial autonomy and commercial orientation for its specific risk profile.
   b) **Appropriate Professional Staff** including capacity for loan identification, credit appraisal, risk management, loan monitoring and follow up, and reporting.
   c) **MSME Lending Capacity**: capacity to appraise and manage lending to priority market segments (e.g., microfinance, and women owned MSMEs). This should include demonstrated ability to design innovative products (in terms of collateral, climate change adaptation, and collateral, and repayment schedules)
   d) **Satisfactory Credit Policies and Procedures** covering analysis of loan appraisal process, loan granting, loan monitoring and recovery, credit risk rating, and environmental and social (E&S) safeguard assessments of subprojects in accordance with World Bank E&S safeguards standards.
   e) **Fiduciary Compliance and Responsible Banking Conduct** relating to MSME services offering by the PFI.
   f) **Adequate Marketing and Communications Plan** promoting MSME banking services.
   g) **Adequate Accounting and Book-Keeping and MIS system** – must have credible financial statements with chart-of accounts as specific- reporting on key performance indicators (KPIs) as

defined by the MSME program (e.g., new jobs generated, increased sales and other indicators baseline data collection and at mid-term and at end of the project) specified by CBS, with at least basic IT support providing good accounting and bookkeeping, and loan portfolio management.

h) **Adequate Internal Controls including AML/CFT and anti-corruption measures, overseen by Audit Committee** – independent internal control function with defined procedures; annual internal controls plan; regular reviews by Audit Committee and follow-up on issues raised in internal controls reports.

i) **Data Collection and Reporting Capability**

j) **Appropriate environmental and social management system (ESMS)** that includes the negative list and is integrated into PFI operations, including the screening of potential sub-projects.

See Annex 1 for additional eligibility criteria

All applications and supporting documents shall be addressed to Mr. Jay Gbleh-bo Brown, Head, Development Finance Section, Central Bank of Liberia (in addition to the submission of signed hard copies of applications, soft copies are to be sent to jgbrown@cbl.org.lr)

The deadline for the submission of application is Friday, December 22, 2023 .

Only shortlisted PFIs will be contacted.

Signed:
The Management
Central Bank of Liberia

Annex 1: Eligibility Criteria for PFIs

1. To determine eligibility of PFIs, the CBL will consider the totality of the eligibility criteria in a manner that will establish acceptable quality of:

a) management which would require timely reporting to CBL and appropriate staffing in place to manage the LOC.

b) profitable and sustainable operations.

c) appropriate capacity (including staffing for carrying out subproject appraisal with environmental assessment and for supervising subproject implementation).

d) adequate managerial autonomy and commercially oriented governance (particularly relevant when state-owned or state controlled FIs are involved).

e) appropriate prudential policies, administrative structure, and business procedures and,

f) sound financial position.

Criterion 1*: Compliance with relevant and prudential regulations of Central Bank of Liberia*

2. The FI must hold a valid license from the CBL to operate as a commercial bank or MFI. The FI should not have been subjected to supervisory intervention, including recapitalization in the last five years before proposing accreditation and participation.

Criterion 2: ***Adequacy of provisions***

3. The FI has to meet the amount of provisions required by CBL regulations.

Criterion 3: *Positive rate of real return*

4. The FI must have shown a positive rate of return over the last three years or must be able to present a credible plan for the attainment of a positive rate of return within three years. (The effects of COVID-19 may have affected profitability over the last three years, and the effects of this exogenous event shall be taken into account.)

Criterion 4: *Capital adequacy ratio*

5. Must meet all CBL requirements for absolute and risk-weighted capital.

Criterion 5: *Liquidity Ratio*

6. Must meet all CBL requirements in prudential regulations on liquidity.

Criterion 6: *Debt/Equity Ratio*

7. The ratio to be maximum of 10 times for PFIs operating for at least 5 years and 5 times for PFIs operating for less than 5 years (but not less than 3 years).

Debt / equity ratio = <u>Long term monetary liabilities at the end of a period</u>

Shareholders' equity at the end of the same period

8. Monetary liabilities would include all the outstanding components including the current portions.

Noted Points:

* The PFIs should consider lease advances, lease deposits, term deposits as liabilities.

* Non-monetary liabilities such as deferred liabilities should be excluded.

* Current liabilities such as payable and accrued expenses should not be included.

Criterion 7: ***Comparison between the weighted average life of monetary liabilities with weighted average life of credits***

9. The weighted average life of monetary liabilities should be longer than the weighted average life of credits.

Noted Points:

* Monetary liabilities should include all long and short-term sources of funds such as bank loans - including funds from the call-money market, deposits, advances, overdraft, etc. (but not shareholders' equity). Non-monetary liabilities should not be included.

* Credits should include total credit, advance and investment portfolio.

* The calculation should be based on actual term of the lease / loan / credit line and principal outstanding amount of lease / loan / credit line.

Criterion 8: ***Mismatched foreign currency position***

10. The "long" and "short" foreign currency position at the end of the period should not exceed the stated ratio in relation to stockholders' equity at the end of the same period. The "long" and "short" position should be computed for both the total foreign currency position and the cross-currency positions, and the resulting ratios should not exceed 5% of equity.

Criterion 9: ***Collection ratio***

11. Ratio to be minimum of 80%.
Computed as: Total cash collections from on balance sheet term credits for a period

Total receivables from on balance sheet credits for the same period

"Total cash collections"

(a) include current cash collection, i.e.

(i) cash collections from receivables due during the period, and

(ii) cash collections on past due receivables,

(b) but exclude rescheduling.

"Total receivables" exclude term credits, which are in litigation.

Criterion 10: ***Portfolio infection ratio & Portfolio delinquency status***

12. The portfolio infection ratio to be not greater than 20%.

Computed as: <u>On balance sheet term credit portfolio in arrears at the end of a period.</u>

Total on balance sheet term credit portfolio at the end of the same period Noted Points:

* Total infected portfolio amount consists of total principal outstanding plus the overdue amounts - not just the overdue installments.

Criterion 11: ***Single borrower exposure (as %*** *of* ***capital)***

13. Single borrower exposure to be less than 35% of capital for banks and 5% of capital for MFIs

Criterion 12: ***Business group borrower exposure (as % of capital)***

14. Highest group borrower exposure to be less than 35% of capital for banks and 7% of capital for MFIs
Noted Points:

* The definition of a "group" is:

i) Two or more companies where one director or shareholder controls 50% or more shares

of each company; or

ii) Where a person, firm, corporation, company or group of companies exercises control or influence over another company, then both/all are considered a group.

Criterion 13: ***Insider lending ratio (as % of capital)***

15. Ratio to be less than 25% of capital for banks. For MFIs it would be 10 percent for secured and 5 percent for unsecured lending.

Criterion 14: ***Industry/ sub-sector exposure (as %*** *of* ***total portfolio)***

16. Highest exposure in a single industry / sub-sector not to be higher than 35% of total portfolio.

Criterion 15: ***Three years 'financial accounts with clean auditor's opinion without implied / hidden qualifications***[2]

17. "Hidden or implicit" qualifications are comments in the notes to the financial statements, which are material and would have a significantly adverse impact on the financial performance and or financial position, if fully considered, but are not explicitly mentioned in the official opinion of the auditors.

[2] MFIs will be expected to submit financial accounts with clean auditor's opinion up to the number of years available if they cannot meet the criteria for three years since it has only been mandated in the 2019 NBFI regulation

Criterion 16: ***FI meets CBL standards for professional and sound management***

Criterion 17: *FIs loan approval procedures include processes for Environmental and Social Safeguards Management*

18. As discussed in more detail in the ESMF, PFIs must have acceptable procedures in place to ensure Environmental and Social Safeguards are met and/or must undertake the procedures outlined for the completion of checklists and appropriate follow-up action.

Criterion 18: *FI has a track record lending to MSMEs and willingness to increase outreach to MSMEs*

19. This includes developing innovative products (in terms of conditions and requirements such as maturity, repayment schedule and collateral requirements, and climate adaptation). The project can provide technical assistance and training (on a grant or matching grant basis) if a PFI proposes the development of an innovative product.

Annex 2: Exclusion/Negative List

The following types of activities shall not be eligible for financing by PFIs:

1. Activities that may cause long term, permanent and/or irreversible adverse impacts to natural systems (e.g., loss of natural, modified and critical habitats);
2. Activities that have a high probability of causing serious adverse effects on human health and safety (such as give rise to SEA/SH) and/or the environment (e.g. emit significant quantities of greenhouse gases);
3. Activities that may have significant adverse social impacts and may give rise to social conflict;
4. Activities that may adversely affect the rights and well-being of vulnerable or disadvantaged groups;
5. Activities that may involve economic and/or physical displacement;
6. Activities that are located within cultural heritage sites or may involve adverse impacts on cultural heritage assets;
7. Activities categorized as substantial and high environmental and social risk;
8. Importation and introduction of invasive/alien plant and animal species;
9. Production or activities involving forced labor or child labor;
10. Production or trade in any product or activity deemed illegal under national laws or regulations or international conventions and agreements.
11. Production or trade in
    a. weapons and Ammunitions
    b. hard liquor
12. Gambling, casinos, and equivalent enterprises;
13. Any business relating to pornography or prostitution.
14. Trade in wildlife or wildlife products regulated under CITES;
15. Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibres and products containing PCBs;
16. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations;
17. Drift net fishing in the marine environment using nets in excess of 2.5 km in length; and
18. Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase outs or bans.