



Unlocking Public and Private
Finance for the Poor

United Nations Capital Development Fund

REQUEST FOR APPLICATIONS FOR

Microfinance Institutions Funding in Sierra Leone

SUMMARY

The objective of this RFA is to select Microfinance Institutions (MFI) in Sierra Leone that will be eligible to apply for a loan to fund the expansion of their loan portfolio through new initiatives including facilitation to capital accumulation. On a case by case, the facility will provide a risk sharing mechanism that will be agreed upon with each MFI. Moreover, the debt finance component will come together with a technical assistance component.

UNCDF is inviting applications from Microfinance Institutions registered and operating in Sierra Leone that are involved in Agriculture Financing in need of concessional debt funding necessary to finance their working capital or expansion goals with a special focus in the Agriculture sector. The entities should specifically be focused on serving rural and peri-urban communities, households and/or businesses led by women and youth segments in Sierra Leone.

UNCDF debt funding will be discussed on a case by case with the institution. The debt funding will preferably be issued in local currency, but can be issued in hard currency if deemed appropriate. Debt financing will be provided to two or more selected applicants after a detailed due diligence to assess their technical and financial viability. Financing will be up to a maximum of 150,000 USD per MFI.

Inquiries to this request for applications may be submitted by email to wycliffe.ngwabe@uncdf.org cc uncdf.rfa@uncdf.org

All applications must be submitted by 11 May 2021 23:59 EDT through UNCDF e-investment platform:

https://apply.uncdf.org/prog/rfa_microfinance_institutions_funding_in_sierra_leone



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1. INTRODUCTION

UNCDF is the UN's capital investment agency for the world's 46 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF's focus countries are located in Africa, Asia and the Pacific, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

COVID-19 and the Sustainable Development Goals (SDGs)

COVID-19 pandemic threatens to undo years of progress achieved towards the 2030 Agenda by the LDCs. Even before the current crisis, LDCs faced an uphill battle to achieve the SDGs. Now, without ambitious development finance and policy responses, there is a serious risk of the SDGs remaining elusive for LDCs, and this will have a global impact.

Small and Medium-sized Enterprises (SMEs), which are critical for job creation and sustainable growth in LDCs, have been particularly hardly hit by the pandemic.

UNCDF, the International Chamber of Commerce (ICC), Global Alliance de PME (GAPME), Business Africa, Columbia University launched the LDC SME pulse survey "The State of Small Businesses in the LDCs: Taking the Pulse of SMEs in the LDC Markets During COVID-19", a unique survey encompassing more than 20 business sectors, featuring over 2,300 SMEs, spanning all 46 LDCs.

The study showed that 88% of businesses have substantially reduced their operations and 34% reported they cannot sustain their businesses for more than 3 months. These disruptions have disproportionately affected female-led businesses and certain business sectors, such as textile, craft, and tourism. In a recent survey update, the preliminary results point to exacerbating conditions for SMEs in the LDCs with over half of the businesses stating decreases in revenues and losses of jobs along with the urgent need for business capital. The prolongation of such conditions is shifting the nature of the COVID-inflicted economic crisis from a market shutdown crisis to a structural business liquidity crisis with the reduction in market demand and shortage of financing.

Focusing on the "missing middle"

In addition, small firms with fewer than ten employees in LDCs have difficulties in transitioning to medium-size enterprises resulting in the phenomenon called the "missing middle". These SMEs are considered too big to access microfinance loans and too small or seen as being too risky to access commercial investments offered by mainstream financial institutions. The concept of the "missing middle" highlights that in many developing countries the private sector is split into two segments: on the one hand, most businesses are small, often informal, rather than medium size, while, on the other hand, there are some very large enterprises.



This leaves a wide gap in the financing-for-development architecture of projects that can transform local communities but need much more technical assistance and project preparation support as well as financing to get off the ground.

SMEs can be important drivers of economic growth, innovation, and job creation, including especially in countries affected by the COVID-19 and other crises. The availability of SME finance is positively associated with the number of start-ups—an important indicator of entrepreneurship—as well as with business dynamism and innovation. Moreover, SME finance allows existing firms to exploit growth and investment opportunities. Ripe investment opportunities with development impact exist even in complex operating environments, but they remain unexploited due to the lack of risk capital and long-term financial support.

The Fourth Sierra Leone Poverty Reduction Strategy Paper (PRSP4)

The fourth Sierra Leone Poverty Reduction Strategy Paper (PRSP4) named “The New Direction” (January 2019-December 2024) affirms the promotion of the private sector and the development of human capital as priority objectives.

PRSP4 aims to stimulate private sector development by improving competitiveness and productivity and encouraging entrepreneurship and private investment. Youth employment strategy emphasizes capacity building through business development services, including training for employment; and increasing opportunities to establish and expand small businesses through (i) financing of youth owned small and medium scale entrepreneurial ventures (ii) promoting youth engagement in agriculture through the provision of direct support in the form of finance, market information, technology and technical advice.

2. SCOPE OF WORK

2.1 Areas of intervention

The objective of this RFA is to select MFI that will be eligible to apply for a loan to fund the expansion of their loan portfolio through new initiatives including facilitation to capital accumulation. On a case by case, the facility will provide a risk sharing mechanism that will be agreed upon with each MFI. Moreover, the debt finance component will come together with a technical assistance facility component.



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2.2 How UNCDF works with partners

UNCDF takes a tailored approach to engagement with partners, working with each throughout to identify business and customer needs, and helping to design, pilot and scale up the solution along the way. Some examples of the ways in which UNCDF works with partners include:

- **Product Research:** Sharing market research and knowledge to deepen partners' understanding of customers' behaviours, needs, constraints and aspirations. This also includes providing transaction data analysis and training to the business teams.
- **Product design:** Providing human-centred design expertise to better understand the customer journey - physical and financial – for better product design and use-case development tailored to the needs of low-income customers and their families. The efforts may also involve analysing the transaction data from a customer lens.
- **Provisioning:** Providing technical assistance to help design, pilot, deploy, and scale up solutions for impact. Technical assistance is provided by digital finance experts who are experienced in product design, business model development and go-to-market strategies in some of the most challenging markets in Africa and Asia.
- **Partnerships:** Facilitating strategic partnerships with stakeholders – including cross-border payment hubs, mobile network operators, financial institutions, and non-bank financial institutions – to enable partners to reach last-mile customers, and to grow sustainably. UNCDF is uniquely positioned to be a neutral broker of partnerships and has a record of building strong relationships with private and public organizations across Africa, Asia, and Pacific.
- **Policy and Advocacy:** Convening efforts to support an enabling environment and build policy and advocacy capacity for human-centred products and services to be piloted and potentially scaled.
- **Loans, guarantees and other financial instruments** to foster private sector development for financial service providers, MFI and other investment ready companies.

In the RFA, applicants may identify and suggest areas where the technical support from UNCDF and its network of expertise is sought.

2.3 Expected results

Candidates must include in the proposal the main financial projections that will be fostered with UNCDF's financing, using the below non-exhaustive information and criteria:

- Volume of loan portfolio (in USD or local currency)
- Numer of clients (disgregated by sex and economic sector)
- Revenues
- Expenses
- PAR 30, PAR 90
- ROE
- ROA
- % Administrative efficiency (Admin costs / Outstanding loan portfolio)



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3. ELIGIBILITY FOR APPLICATION AND EVALUATION CRITERIA

Only applications that meet the eligibility requirements and minimum criteria for the submission will be scored.

3.1 Eligibility requirements

- Legal status: Licensed by Bank of Sierra Leone to provide credit facilities and mobilise deposits to the public.
- Compliance with applicable prudential regulations and guidelines of Bank of Sierra Leone. Each MFI must be in compliance with all applicable prudential regulations and guidelines of BSL, including but not limited to those for: (a) a minimum paid up capital of Le. 1Bn; (b) minimum liquidity (20% minimum requirement of total deposit liabilities of which 10% shall be cash reserves); (c) overall nonperforming loan ratio for SME loans.
- Minimum rating for Capital adequacy ratio of 8%. The Capital Adequacy shall be measured as a percentage of the capital base of the Other Deposit-Taking Institution to its risk weighted assets.
- Corporate Governance: Compliance with BSL's measures for corporate governance of financial institutions, which includes:
 - (a) corporate governance structures that promote effective identification, monitoring, and management of all material business risks.
 - (b) systems for ensuring compliance with all statutory and regulatory requirements
 - (c) implementation of financial disclosure requirements for market participants and observers
 - (d) setting of corporate governance objectives, strategies, and techniques.
- Non-involvement in financial fraud: Compliance with non-involvement standards of financial frauds, notably large-scale financial fraud cases, including Anti money laundering, will become ineligible for participation in the Jobs and growth Investment facility.
- Non Performing Loans (NPL): Compliance with 10% prudential limit of Bank of Sierra Leone
- Risk management procedures: Compliance with proper risk management processes and/or procedures (e.g. risk identification, measurement, monitoring and control manual) that cover the necessary (a) credit risk, (b) asset-liability management risk, and (c) operational risk. The MFI should have the control structure and capacity to systematically evaluate and/or conduct credit risk appraisal, asset-liability management, internal control and compliance, as well as market risks (e.g. interest rate risk and foreign exchange risk).
- With regard to credit risk, the Institution shall address:-
 - (a) Credit policies (which must include limitations on loans to affiliates and controlling persons).
 - (b) Plans to minimize concentration risk through diversification and limitations on exposures to individual and groups of related borrowers, and
 - (c) Asset quality considerations such as underwriting, loan classification system, and provisioning for bad and doubtful loans.



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Exclusionary criteria:

- Applicants shall not have been the subject of bankruptcy, liquidation, judicial settlement, safeguarding, cessation of activity or any other similar situation resulting from a similar procedure.
- Applicants and any of their staff or member of their board of directors shall not be included in the United Nations financial sanctions lists, particularly in the fight against the financing of terrorism and against attacks on international peace and security and
- Applicants must not be involved in any of the following activities
 - Manufacture, sale or distribution of controversial weapons or their components, including cluster bombs, anti-personnel mines, biological or chemical weapons or nuclear weapons
 - Manufacture, sale or distribution of armaments and/or weapons or their components, including military supplies and equipment
 - Replica weapons marketed to children
 - Manufacture, sale or distribution of tobacco or tobacco products
 - Involvement in the manufacture, sale and distribution of pornography
 - Manufacture, sale or distribution of substances subject to international bans or phase-outs, and wildlife or products regulated under the CITES
 - Gambling including casinos, betting etc. (excluding lotteries with charitable objectives)
 - Violation of human rights or complicity in human rights violations
 - Use or toleration of forced or compulsory labor
 - Use or toleration of child labor
- Applicants shall have fulfilled all the obligations relating to the payment of social security contributions or obligations relating to the payment of taxes in accordance with legal provisions in force in the country of incorporation

UNCDF will conduct due diligence on selected applicants. Applicants must have documents ready for confirmation that they meet the eligibility criteria including certificate of compliance with the tax authorities and any other documentary evidence that might be requested by UNCDF besides the application form.



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3.2 Evaluation criteria

Applications will be scored according to the below evaluation criteria.

Criteria	Score	Source of Verification
TC-01: SME¹ Lending policy ✓ in place; or ✓ in development	5 3	Policy to be provided
TC-02: Agriculture investment lending policy: ✓ In place; or ✓ In development	5 3	Policy to be provided
TC-03: SME department ✓ in place; or ✓ in development	5 3	Organogram to be provided
TC-04: In- country branch operation coverage: ✓ 25% ✓ 50% ✓ 75% ✓ 100%	2 3 4 5	Organogram to be provided
TC-05 Similar projects: At least one previous successful experience collaborating with similar approach	5	Certificate /partnership agreement to be provided
TC-06 lending pipeline: Existing agri-business loan pipeline	5	Pipeline to be provided
TC-07 Innovative financial tools to allow poor customers to better manage cash-flow management: In particular such products should: a) Allow small deposits and withdrawals at any time b) Provide long-term contractual savings products to limit the effects of expensive events or emergencies c) Offer general-purpose loans	3 3 4	
Total		Max 40

¹ Definition of small and medium enterprise should be as per Sierra Leone Policy



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4 APPLICATION REQUIREMENTS AND PROCESS

4.1 Budget

UNCDF will provide a financing to two or more selected MFI. Funding can go up to 150,000 USD per MFI.

4.2 Structure of the application

All applications must be submitted by 11 May 2021 23:59 EDT through UNCDF e-investment platform:

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- Certificate of incorporation and other registration and license documents of the applicant.
- Audited financial statements for at least 3 years from the applicant.
- Latest available unaudited financial statements and/or management accounts.
- Detailed statement of the intended use of funds, including a Workplan, budget, and expected outcomes/impact of the proposed funds.
- Financial forecasts and a business plan supporting the forecasts.
- Document certifying that the applicant has fulfilled all obligations relating to the payment of social security contributions or obligations relating to the payment of taxes per the legal provisions in Sierra Leone
- Corporate information including CVs of the the directors of MFI, statement of mission, vision and mandate, governance structure, organization structure etc.

All submissions must be completed in English.

4.3 Application deadline

All applications must be submitted by 11 May 2021 23:59 EDT through UNCDF e-investment platform:

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4.4 Selection process:

- Step 1: Eligibility / shortlisting screening – eligibility will be assessed by a UNCDF evaluation team in accordance to the eligibility requirements as set forth in this RFA.
- Step 2: Notification to shortlisted applicants with details of the next step i.e. due diligence.
- Step 3: Due diligence of shortlisted applicants.



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- Step 4: Selection of qualifying applicant based on results of the due diligence.
- Step 5: Negotiation of term sheets with qualifying applicant
- Step 6: Approval of the qualifying applications by UNCDF Impact Investment Committee
- Step 7: Notification of approved qualifying applications and negotiation of loan agreement

4.5 Timeline

27 April 2021	Application window opens
5 May 2021	Deadline for questions
11 May 2021	Deadline for submission

4.6 Real-time assistance from UNCDF

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