# TERMS OF REFERENCE

## CONSULTANCY SERVICE TO CONDUCT AN EVALUATION OF DIRECTED CREDIT PROGRAMS AND TO DESIGN A FACILITY FOR MSME PROJECT FUNDS AFTER CLOSURE

## I. BACKGROUND

Access to financial services in Liberia is limited. Prior to the Ebola outbreak, CBL conducted a household survey in 2013, which found that only 28 percent of the population had an account at a formal financial institution.[1] Additionally, 26 percent of respondents reported having taken a loan from a formal financial institution in the previous 12 months.

Financial institutions are also largely concentrated in urban areas, and with poor transportation infrastructure, access to financial services is difficult for rural populations. With nearly 51 percent of the population living in rural areas, a large segment of the population does not have access to financial services. Rural penetration is hampered by a weak road and communications infrastructure.

The Ebola crisis adversely impacted financial inclusion in Liberia. The IMF recently reviewed the impact that the Ebola crisis had on financial inclusion, and while it is difficult to directly measure the impact of the epidemic, they highlighted a number of negative financial sector outcomes during the period.[2] For example, they found the number of microfinance institutions (MFIs) decreased from 23 to 20 in the course of 2015 due to low loan repayment, reflecting the epidemic's disruption of microenterprise activities and household incomes. They also found that the crisis triggered extensive bank deposit withdrawals with demand deposits falling by 12 percent, during the early stage of the crisis (March through September 2014). In addition, the economic slowdown during the crisis constrained borrowers' assets and activities. Banks' non-performing loans (NPLs) increased during the epidemic from 14.5 percent of total loans in March 2014 to 19.2 percent in June 2015. Private credit growth increased on the margins from 18.3 to 18.8 percent between 2013 and 2014, increasing to 20.1 percent in 2015 and decreasing to 19.8 percent in 2016.

Financial institutions are also capital constrained in differing ways depending on their institutional type. MFIs, including the only deposit-taking MFI, are not eligible to borrow on a regular basis from the Central Bank of Liberia (CBL). As a result, many MFIs identify access to capital as one of their biggest challenges. Additionally, banks do not face liquidity challenges. Banks low level of lending is not due to capital constraints, as liquidity is persistently high and above the regulatory minimum, with liquid assets to net assets at 28.1 percent as of June 2016. In addition to non-performing loans (NPLs) net of interest in suspense at 14.8 percent in June 2016, banks are capital constrained for longer maturity loans, such as over 6 to12 months, as deposits are short-term in nature.

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[1] "Formal financial institution" is defined as a commercial bank, deposit-taking MFI, non-deposit taking MFIs, credit unions.

[2] Liberia – Selected Issues. IMF Country Report No. 16/239. July 2016.

In this context, the CBL and others have established directed credit programs to address perceived market failures in credit provision to various segments of the economy, e.g., micro-clients, SMEs, and farmers. The CBL, cognizant of the large number of Liberians excluded from the formal financial sector, developed directed credit programs in attempt to increase access to finance for poor and lower income segments. For example, the Loan Extension and Availability Facility (LEAF) was designed to provide soft loans to microfinance institutions, credit unions and village savings and loan associations at 3 percent per annum to be on lent to micro and small borrowers at 7 percent per annum. These programs, in particular the LEAF program, have run into difficulties due to high non-payment from borrowers. It appears that directed credit programs were instituted without due diligence of institutions and without effective operational requirements, resulting in some MFIs engaging in irresponsible lending that resulted in low repayment, which then saddled these institutions with debt. To address public perception that the MSME Rural Finance Post Ebola Reconstruction project funds is not a "*free money*", the Government of Liberia (GoL) on-lent the funds to seven financial institutions including 3 commercial banks and four microfinance institutions to be the direct implementers. The fund is being implemented with absolutely non-intervention from the government. However, the government plays some level of oversight and monitoring roles through the Project Steering Committee to ensuring that the project meets its desired goals.

The WBG and other development partners also support directed credit programs. Various sectors in the WBG, including energy and agriculture, are exploring credit lines to SMEs in light of limited financing in these areas. These activities run through the respective ministries and are not centrally coordinated or monitored in terms of their design.

One of these directed credit programs is the World Bank and Government of Liberia's (GoL) MSME and Rural Finance Post Ebola Reconstruction project, which provides USD 4 million as a line of credit to banks and MFIs to help stimulate access to credit with maturity longer than six months and to help MFIs increase their lending portfolio. The project began disbursing to financial institutions the later part of 2017 and closes in April 2019. The use of the project's fund after project closure, however, remains undecided.

In light of low levels of access to financial services in Liberia, the various challenges banks and MFIs face in providing credit to the private sector, and efforts by CBL, GoL, WB, and other development partners to address such constraints to finance in various sectors, it is important to: i) conduct an independent assessment of the impact various directed credit initiatives, including an in-depth assessment of the MSME project by the time it closes; and ii) design a financial facility that can use the MSME project funds after the project closure to ensure financial institutions continue to have access to capital for the lending needs accommodate other project financing to help promote best practice in directed credit; and also advance recommendations that take into account legal and governance aspects of the facility that best attract development partners or private investments.

## II. OBJECTIVES

The overall objective of the consultancy is to: i) conduct an independent assessment of the impact various directed credit initiatives by CBL and other development partners, including the MSME project; and ii) design a financial facility that can use the MSME project funds after the project closure to ensure financial institutions continue to have access to capital for the lending needs and can also channel credit to various sectors from other directed credit initiatives.

## III. SCOPE OF SERVICES

Component A: Review of Directed Credit Programs

1. Review publications on government and donor directed credit programs
2. Meet with government ministries and other entities, and donors involved in directed credit programs
3. Meet with banks, MFIs, beneficiaries, implementing agencies, etc. of directed credit programs
4. Write an analysis on the performance of the directed credit programs and provide recommendations on improving this framework of development support and how to monitor and evaluate them along best practices.
5. Conduct an in-depth case study/assessment on the impact of the MSME project by the time it closes

Component B: MSME Project Exit Facility

1. Hold consultations with stakeholders on hypothetical design of MSME Project Exit Facility
2. Design a financial facility that could utilize MSME funds after project closure and can also channel directed credit from multiple sectors
3. Develop a MOU between MSME project stakeholders to ensure MSME project funds are channeled into the facility

## IV. REQUIRED QUALIFICATIONS, EXPERIENCE AND COMPETENCIES

**1.** The firm must have at least five years' experience in Financial Management.
**2.** The firm must demonstrate experience in the area of microfinance operation and management; experience in a developing country is plus
**3.** The firm must have a team of two staff which include Team Leader and a Financial Management Specialist
**4.** Staff qualifications and Competencies:
Team Leader

1. The Team Leader must have a minimum of a Master's Degree in Project Management, Public Administration, Economics, or equivalent;
2. At least 10 years of working experience in program evaluation;
3. Work experience in the financial sector, NGO's, INGO'S, donor-funded projects, and other relevant institutions will be an added advantage;
4. Fluency in both oral and written English language;

5. Demonstrates good oral and written communication skills in substantive and technical areas;
6. Strong interpersonal and communication skills, commitment to team work and to work across disciplines; and
7. Excellent writing, editing and analytical skills and capability of working independently.

**Financial Management Specialist Qualifications**

1. The Financial Management Specialist must have a minimum of a Master's Degree in Project Management, Public Administration, Economics, or equivalent;
2. At least 7 years of working experience in program evaluation;
3. Work experience in the financial sector, NGO's, INGO'S, donor-funded projects, and other relevant institutions will be an added advantage;
4. Fluency in both oral and written English language;
5. Demonstrates good oral and written communication skills in substantive and technical areas;
6. Strong interpersonal and communication skills, commitment to team work and to work across disciplines; and
7. Excellent writing, editing and analytical skills and capability of working independently.

## V. DURATION OF ASSIGNMENT

The assignment is for 60 days.

## VI. REPORTING REQUIREMENTS

The consulting firm will produce the below reports from time to time to the Project Director and other concerned parties regarding the accomplishment of the assignment. The reports are:

- Inception Report
- Draft Report on performance of the directed credit programs and in-depth assessment of the MSME Project
- Final Report on performance of the direct credit programs and in-depth assessment of the MSME Project

## VII. DELIVERABLES

Component A: Review of Directed Credit Programs

1. Report analyzing the performance of the directed credit programs, including recommendations on improving directed credit initiatives. Report should include an in-depth assessment of the MSME project by the time it closes.

Component B: MSME Project Exit Facility

1. Report on the design of a financial facility that could utilize MSME funds after project closure and can also channel directed credit from multiple sectors
2. MOU between MSME project stakeholders to ensure MSME project funds are channeled into the proposed facility.