

INTEGRATED SAFEGUARDS DATA SHEET

IDENTIFICATION / CONCEPT STAGE

Report No.: ISDSC15572

Date ISDS Prepared/Updated: 14-Dec-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Liberia	Project ID:	P157797
Project Name:	Liberia MSME & Rural Finance post Ebola Reconstruction		
Team Leader(s):	Christopher Juan Costain		
Estimated Date of Approval:	04-Mar-2016		
Managing Unit:	GFM01	Lending Instrument:	Lending Instrument
Sector(s):	Banking (20%), Payments, settlements, and remittance systems (20%), SME Finance (20%), Microfinance (20%), Agro-industry, marketing, and trade (20%)		
Theme(s):	Micro, Small and Medium Enterprise support (100%)		
Financing (in USD Million)			
Total Project Cost:	4.8	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
State and Peace Building Fund			4.8
Environment Category:	F - Financial Intermediary Assessment		

B. Project Development Objective(s)

The Project Development Objective (PDO) is to support the development of a framework to provide MSMEs finance on sustainable terms, enhance the capacity of local private sector financial institutions to lend profitably to MSMEs and objectively measure outcomes.

C. Project Description

Project background.

While there have been a number of government led financing schemes targeting SMEs, the unmet demand for finance remains significant. To date, none of the financing schemes have sought to address the weaknesses which have held back the development of sustainable financing, particularly with regards to the supply side of credit, making banks better lenders to MSMEs. As there has been no monitoring or evaluation of the past schemes, it is not possible to determine exactly what objectives have been achieved. These lending activities have been spread across the MFDP, Central Bank, Ministry of Commerce and Industry and the Ministry of Agriculture without coordination.

This activity will serve to improve the supply of finance available in the local economy through providing a demonstration to both Government and local banks of best practice in MSME lending. In the first instance, the project will seek to draw together all SME financing schemes into one facility, under the auspices of the MFDP but with advice from the Central Bank and implemented through local financial institutions. Rather than the directed approach followed to date, whereby parallel schemes have been directed to disperse to distinct sectors (commerce, agriculture etc.) the project will be agnostic as to sector but will focus on supporting MSME enterprises which have credible financing proposals and allow participating financial institutions greater freedom in terms of economic sector. Furthermore, the project will work with participating financial institutions to address the fundamental issues which have led to poor loan performance to date: high transactions costs, poor Contract Enforcement, a high level of Volatility in business outcomes (related to commodity prices, weather conditions etc.), poor Information as to both the willingness and ability of the client to repay loans, and reliance on collateral rather than ensuring business Cash Flows are well aligned to the terms of loans.

There starting point will be that financing will be on sustainable terms, however, the facility will support participating financial institutions to provide terms which are not currently available in the market. In particular, the project will support the provision of loans beyond the 18 months tenor currently available (the exact term to be determined at appraisal, but probably to 5 years), and will allow for deferral of payments relating to objectively identifiable disruptions (such as poor harvests, commodity price variation etc) and will focus on cash flow rather than collateral. Through the innovation component, the project will also seek to take advantage of ongoing initiatives to extend the use of mobile money in Liberia to lower transactions costs and improve the information held on borrowers (e.g. a record of payments made and received through mobile money can substitute for a lack of financial accounts and the use of biometric ID and/or the direct intercept of payments can be used to enhance loan recovery). If and only if there are identified public goods associated with providing finance to MSMEs (such as sustaining employment in the Post Ebola period in response to the systemic shock of the Ebola crisis), subsidized finance may be provided on an exceptional basis, but this will be explicit, transparent, targeted and limited both in amount and time of availability. The project will seek to ensure that populist demands for cheap money do not lead to the creation of new ad hoc schemes (and also that such funds, if necessary, are allocated on objective terms rather than as a product of clientelism).

The higher order objective of the project is to assist viable MSMEs to rebuild their businesses and maintain employment, particularly for the poorest, through enhancing their access to finance. The proposed assistance is to be catalytic in emphasizing activities which are complementary to those of the IFC, other Global Practices and other development partners. The desired immediate outcome will be to establish a development financing vehicle which will use private financial institutions and establish best practice in terms of evaluation and monitoring to replace government sponsored initiatives which have focused on disbursement and have been questioned for political motivation. In particular the activity will seek to guide the expertise of the Central Bank away from direct lending in the development finance sector.

A further objective will be to coordinate and provide monitoring for various directed lending activities of the WBG and other development partners to ensure consistency and adherence to best practices. Various sectors in the WBG, including energy and agriculture, are exploring credit lines to SMEs in light of the unavailability of finance at this level. These activities run through the respective ministries and are not centrally coordinated or monitored in terms of their design. The project would

seek to facilitate these activities and ensure balance between availability of finance between sectors. The project will focus on the finance aspects of SME lending and would coordinate with parallel WBG, AfDB and other development partner activities which provide technical assistance, mostly to borrowers.

The project would comprise three components:

1 SME Financing Facility Funding and technical assistance to FIs (USD 4.0 million). This would comprise three subcomponents to support on-lending to micro and small entrepreneurs.

a. Line of Credit for viable MSMEs. Provide term finance in local currency (and US\$ where appropriate) to financial institutions for onlending to MSMEs. Identification of MSMEs and credit risk to be the responsibility of participating financial institutions (although sector support provided by relevant WBG units for agriculture, energy, education, trade etc.). Financing terms to be established so as to support rather than undermine market forces

b. Risk-sharing Instruments. Establishment of partial credit guaranty scheme; default risk to be shared 50/50 with participating banks for loans to MSMEs falling within agreed criteria.

c. WB/Consultant Technical Assistance assistance to participating financial institutions to improve the quality of lending by providing expertise in design and operation of credit and risk-sharing operations, loan supervision, credit screening, cash-flow modeling etc.

2 Innovations in MSME Finance. Technical Assistance to develop use of digital financial services and new lending instruments. Link with new initiatives such as Partnership for a Digital West Africa and the ERRTF funded payments systems project to make use of mobile money, biometric ID and other innovations to lower transactions costs and improve credit information. This activity would also explore increasing use of techniques proven elsewhere but not utilized in Liberia such as leasing, factoring and warehouse receivables.

3 Establishment of Monitoring & Evaluation Framework. Establish a process for tracking disbursements of funds from this project and other financial intermediation activities to determine objectives and monitor achievements (employment, poverty and gender targeting, as well as financial performance).

A key objective of the project is to provide Government sufficient incentive to revisit the way that it addresses MSME finance, and also present a sustainable solution to the populist initiatives seen in recent years.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The exact location of the project is not defined at this stage, but the sub-projects financing will be targeted towards sustaining employment in small enterprises that have been indirectly affected by the Ebola crisis. Most small enterprises will be largely involved in commerce with minimal safeguards issues. Support for agricultural activities however may present environmental and social safeguards issues. But this will most likely be in the same areas as already covered by the existing Smallholder Tree Crop Revitalization Support Project.

E. Borrower's Institutional Capacity for Safeguard Policies

The borrower has received support for the development of safeguards in connection with the Smallholder Tree Crop Revitalization Support Project and if it is the case that safeguards are triggered under the activity now proposed, these will be minor relative to those of the Smallholder Tree Crop project and should be manageable within the framework established for that project.

F. Environmental and Social Safeguards Specialists on the Team

Gloria Malia Mahama (GSURR)

Sekou Abou Kamara (GENDR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project will be of financial intermediation and as such the ultimate activities have not yet been identified. Further study as to likely areas of activity will be conducted at appraisal. As a MSME initiative, individual activities are likely to be modest in scale, but it remains to be determined if in aggregate they may be material. However appropriate safeguards instruments will be developed at appraisal and at sub-project level if and when required.
Natural Habitats OP/BP 4.04	No	The project will be not finance activities which are greenfield in nature and in all cases if agricultural development is to be supported, detailed procedures will be developed and will be applied to ensure that vegetation to be replaced by new plantings is not environmentally significant and implications of a possible cumulative effect will not be environmentally significant.
Forests OP/BP 4.36	No	The project will be of financial intermediation and as such the ultimate activities have not yet been identified. Further study as to likely areas of activity will be conducted at appraisal. As a MSME initiative, individual activities are likely to be modest in scale, but it remains to be determined if in aggregate they may be material.
Pest Management OP 4.09	TBD	The project will be of financial intermediation and some activities in the agro-industry may be financed; however, the ultimate activities have not yet been identified. Further study as to likely areas of activity will be conducted at appraisal and the required safeguard instrument will be developed if required. As a MSME initiative, individual activities are likely to be modest in

		scale, but it remains to be determined if in aggregate they may be material.
Physical Cultural Resources OP/BP 4.11	No	The project will not support activities in recognized cultural sites, and the activities to be supported do not entail those that would normally result in chance finds.
Indigenous Peoples OP/BP 4.10	No	Indigenous People are not expected to be present in the project area.
Involuntary Resettlement OP/BP 4.12	No	This project will extend credit to already existing MSMEs who are largely involved in commerce and services (catering, education, transport etc.) with no need for land acquisition. Any agricultural activity will focus on complementing the Smallholder Tree Crop Revitalization Support Project (P113273) which is already guided by established safeguards procedures. Further, Sub-project screening for environmental and social risk will be undertaken to assess and exclude activities that may result in resettlement impact or business with adverse shortcoming in social compliance in their ongoing activities with legacy issues.
Safety of Dams OP/BP 4.37	No	The project will not support the construction or rehabilitation of dams, nor would it support activities which rely on the services of existing dams.
Projects on International Waterways OP/BP 7.50	No	Project activities have no impacts on international waterways.
Projects in Disputed Areas OP/BP 7.60	No	Project activities will not be carried out in disputed areas.

III. SAFEGUARD PREPARATION PLAN

A. Appraisal stage ISDS required?: Yes

i. Explanation

At appraisal the likely nature of activities to be financed under the project will be determined and

ii. Tentative target date for preparing the Appraisal Stage ISDS

16-Feb-2016

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage ISDS.

At appraisal it will be determined if substantive safeguard related activities would be triggered by any prospective agriculture (or other) financing activities contemplated. If it is likely that the nature of such activities would be disproportionate to the MSME nature of the project, and cannot be supported within the framework established for the existing Smallholder Tree Crop Revitalization Support Project eligible areas of financing activity will be curtailed to preclude the need for such safeguard activities.

IV. APPROVALS

Team Leader(s):	Name: Christopher Juan Costain	
<i>Approved By:</i>		
Safeguards Advisor:	Name: Johanna van Tilburg (SA)	Date: 04-Dec-2015
Practice Manager/ Manager:	Name: Irina Astrakhan (PMGR)	Date: 04-Dec-2015

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.