



EMPOWERING LOCAL BUSINESS TO ACCESS FUNDING



PARTIAL CREDIT GUARANTEE
and
SUPPLY CHAIN FINANCING



Contents

- **Mandate of the Lesotho National Development Corporation**
- **Background**
- **Enterprise Development Facility**
- **Partial Credit Guarantee Scheme**
 - PCG Policy Guidelines
 - PCG Deal Flow Process
 - Call Flow Process
- **Supply Chain Finance**
 - SCF Policy Guidelines
 - SCF Deal Flow Process



Mandate

“initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment in Lesotho”



Background

- Access to finance has been identified a major problem for local private sector by
 - National Strategic Development Plan (NSDP)
 - Financial Sector Development Strategy (FSDS)
- LNDC Developed the following programmes to address this challenge
 - Enterprise Development Facility (EDF)
 - The Supply Chain Finance (SCF)



Enterprise Development Facility (EDF)

- The framework has four broad strategies
 - Credit Guarantee Scheme (PCG),
 - Equity Participation,
 - Wholesale Financing and
 - Technical Support for private sector
- The Corporation decided to implement the framework in phases starting with Credit Guarantee Scheme



Partial Credit Guarantee Scheme (PCG)

- **Objective:**
 - is to create a sustainable support structure for the development and growth of Basotho majority owned businesses in Lesotho.



Partial Credit Guarantee Scheme (PCG)

- To achieve this objective, the PCG aims to:
 - Address the limited access to finance by Basotho owned businesses by making it easy for financial institution to lend to them.;
 - Promote the export business;
 - Promote labour intensive and thus employment generating projects;
 - Facilitate transfer of technology and skills;
 - Develop capacity; and
 - Diversify the economy



PCG Policy Guidelines

- **Policy Guidelines**

- LNDC Management will develop a budget based on identified promising and strategic projects to be approved by LNDC Board;
- Eligible projects will be those that would have been identified by the Corporation as strategic and are in line with the objectives of the facility as stated above;
- The facility will finance both the Greenfield and Brownfield projects;



PCG Policy Guidelines

- Priority Sectors

- Agro-processing
- Mining (except diamond mining and quarrying)
- Minerals beneficiation (e.g. mineral water bottling)
- Tourism (infrastructure)
- Information technology/ Consumer electronics
- Franchising
- Construction
- Manufacturing

**No priority sectors
PCG supports projects
across all sectors**



PCG Policy Guidelines

- **Policy Guidelines**

- Eligible projects should have a majority shareholding of Basotho. If the majority shareholder is a Mosotho by naturalization such a person must have been a Mosotho for at least ten years;
- The applicant must submit a bankable business plan directly to the bank. The bank should provide its unqualified approval to LNDC in that regard.
- The Fund will provide the Bank with 50% (fifty percent) Guarantee Coverage in respect of Loans extended by the Bank to the Private Sector Enterprises, regarding short, medium and long term Loans. Qualifying project promoters must demonstrate the ability to provide at least 15% collateral (or as may be required by the bank).



PCG Policy Guidelines

- **Policy Guidelines**

- Qualifying projects must demonstrate ability to reach 60% debt to equity ratio within their first two years of operation.
- Where appropriate, an existing entity applying for funding must submit audited financial statement for the last 3 years (or for the number of years in business if less than 3 years), if the latest statement is more than 6 months old, the most recent management accounts must also be submitted;



PCG Policy Guidelines

- Policy Guidelines

- The loan amount to be guaranteed shall not exceed M 5 000 000 (five million maloti). There is no lower limit.
- Loans may be utilized for the purchase of plant and machinery and/or for operating costs / working capital, as well as the purchase of equity stakes in other companies;
- Guarantee fees ranging between 1% to 3% would be charged annually payable in advance on outstanding balance, thus a debit order in favour of LNDC for annual guarantee fee payments must be presented;



PCG Deal Flow Process

- In order to facilitate efficient implementation and monitoring of the scheme, the following tools were developed:
 - [Guarantee Notice – LNDPCPG 001,](#)
 - [Applicant Undertaking – LNDPCPG 002,](#)
 - [Credit Guarantee Certificate – LNDPCPG 003,](#)
 - [Applicant's Default Notice –LNDPCPG 004,](#)
 - [Claim Form – LNDPCPG 005.](#)



PCG Deal Flow Process

- **Guarantee Notice – LNDCPCG 001**
 - This is an application by the bank to access the facility provided by the scheme. It is accompanied by
 - the [Applicant's Undertaking](#),
 - the bank's appraisal (or copy of the applicant's loan application) and
 - the business plan (where appropriate).



PCG Deal Flow Process

- Applicant Undertaking – LNDCPCG 002
 - This is a declaration by the client (enterprise) that
 - the information provided by him/her is correct and
 - that he/she has acquired full knowledge of how the scheme operates.
 - It is submitted together with the bank application to the fund.



PCG Deal Flow Process

- Credit Guarantee Certificate – LNDCPCG 003
 - The [guarantee certificate](#) is a response to the [Guarantee Notice](#).
 - Credit Guarantee is qualified in that it is
 - direct and explicit;
 - unconditional;
 - irrevocable (subject to clause 10.5 the of Memorandum of Agreement);
 - legally enforceable under relevant courts and jurisdictions;
 - partial and bearing on the loan principal only and based on the principle of final loss

Deal Flow Process

Private
Enterprise

- Prepares Project Proposal
- Submits application to the bank
- Meets banks requirements

Lender

- Receives Business Plan
- Proposal appraised based on the Normal Lending Requirements
- Bank submits PCG application to LNDC

PCG Fund

- LNDC receives application
- Review application in line with PCG guidelines
- LNDC makes decision within 5 working days

Lender

- Lender disburse funds



Call Flow Process

- Applicant's Default Notice –LNDCPCG 004
 - The bank will lodge with the fund the default notice accompanied by the claim form.
 - This serve to inform the fund of the termination of a particular loan agreement under the PCG scheme.



Call Flow Process

- Claim Form – LNDPCPG 005
 - The claim form provides a full detailed analysis of the status of the repayment of the loan and includes amounts and receipts, and status of the security.
 - It states amount claimed by the bank as percentage of the final loss to the bank.

Call Flow Process

Private
Enterprise

- Termination event / default Event has occurred

Lender

- Terminates contract with borrower / Bank issues letter of Demand
- The bank initiates recovery process through legal means
- Makes a call on the Guarantee (submits **applicant's default notice** and **Claim Form**)

PCG Fund

- LNDC receives and review default notice and claim form
- LNDC pays within 60day

Lender

- Lender receives payment within 60days
- Lender pursue recovery process, and reconciliation with the fund is done
- Deal with borrower terminated



Current Performance of the Scheme

- The scheme has unlocked M10, 700,000.00 in loans from the three participating banks.
- The total exposure of the scheme as of July 2014 is M5, 350,000.00.



Thank you

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