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Project Fiduciary
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**GOVERNMENT OF SIERRA LEONE
MINISTRY OF FINANCE**

**REQUEST FOR EXPRESSIONS OF INTEREST
(CONSULTING SERVICES – FIRM SELECTION)**

ISSUE DATE 10th FEBRUARY 2021.

Sierra Leone Economic Diversification Project

Loan No. P164212

Assignment Title: Consulting Services to Conduct Market Study on Movable Asset-based Financing to Small and Medium Enterprises in Sierra Leone

Reference No. SL-MOFED-217628-CS-CQS

As part of the World Bank Group efforts to support access to credit for SMEs in Sierra Leone, the Government of Sierra Leone and the World Bank are in process of preparing a new lending operation – Sierra Leone Economic Diversification Project, with focus on business environment, getting credit, access to property rights information and economic diversification. One area of support is Getting Credit for SMEs, and related practices and obstacles.

To expand formal finance to underserved segments, there is a need to have in place a comprehensive financial infrastructure and legislative framework conducive to sharing of credit information by financial institutions. There is also a need to encourage greater symmetry in the data and information available for MFIs, banks and financial institutions to make credit decisions.

The Importance of Financial Infrastructure

The quality of financial infrastructure in an economy determines the efficiency of intermediation, the ability of lenders to evaluate risk and of borrowers to obtain credit, insurance and other financial products on competitive terms. Expanding access to finance and financial services to financially underserved groups requires a two-pronged strategy:

1. First, it involves creating and improving the different elements of a strong financial infrastructure, such as credit bureaus, payment and securities settlement systems, remittances and collateral registries, while also creating an enabling legal and regulatory framework to allow the proper functioning of these institutions and systems
2. Second, it also requires working with the various financial institutions themselves (retail/SME banks, microfinance institutions, housing finance companies, leasing companies), and strengthening the capacity of these institutions to deliver timely and relevant financial services

3. Current Status of Movable Asset-based Lending to SMEs in Sierra Leone

Shortcomings in Sierra Leone's financial infrastructure account for the fact that large swathes of society still find themselves underserved or ignored altogether, and women find access to finance and the cost of finance particularly challenging. Despite the progress made in the last decade by the Government, Sierra Leone's financial sector is still affected by inefficient General Commercial Courts; inadequate bankruptcy laws that make it very difficult for a lender to recover collateral in the event of a default; excessive lending risks for private banks due to institutional deficiencies; and a cash-based economy with a high degree of informality. Without a solid credit infrastructure to effectively price the risk,

financial institutions resort to over-collateralized loans and high interest rates and were completely overlooking the MSME sector which was deemed too risky.

The uncertainty bred by such systemic weaknesses in the credit infrastructure is not just holding back lending in general, but asset-backed lending based on movables in particular. Movable property is the main asset category the underserved or marginalized groups, particularly women, have to offer as possible collateral. In Sierra Leone, traditionally financial institutions have used fixed asset ownership, particularly land ownership, as the basis for judging credit-worthiness. This puts SMEs, and particularly women-led ones, at relative disadvantage as they often cannot put up such collateral for loan. Moreover, whatever collateral they can manage gets used up in taking the term loan leaving them with no means to seek working capital loan from financial institutions. Unlike their large-scale counterparts they cannot use influence and contacts to solve the problem.

Financial institutions, on their part, also tend to be less flexible about the collateral requirement in the case of the SMEs as they perceive SME loan to be riskier and the cost of monitoring and supervision of small loans to be higher.

Sales proceeds, accounts receivable, inventory etc. can be the basis of working capital loan, but this requires proper documentation of the transactions of the SMEs and close monitoring and supervision on the part of the lending institutions. Because of the informal nature of many SME transactions and high cost of small loan administration, use of such movable asset for working capital lending will involve certain difficulties.

At the request of the Bank of Sierra Leone (BSL), the WBG (IFC Advisory Services) designed and launched an IFC advisory project in 2014. The objective of the project was to tackle the underlying institutional deficiencies head-on, by building the collateral regime necessary to increase access to finance for MSMEs and thereby helping to create jobs and reduce poverty. In that same year, the Borrowers and Lenders Act (B&L Act) which was closely following the Ghana secured transaction law was enacted. The project was paused temporarily due to the Ebola crisis but resumed in June 2016. The Collateral Registry was successfully launched in 2017 and a series of training on the registry and asset-based lending was subsequently delivered to promote moveable financing for SMEs. However, despite the improvements made to the legal framework for secured transactions and the launch of the Collateral Registry, the volume of registrations in the Collateral Registry remains low and may indicate that the existence of lingering issues or persisting bottlenecks that need to be addressed.

A market study to identify these bottlenecks is planned and this document details the scope of the study.

Objectives

The proposed study has the following key objectives:

1. Provide an estimate of the current level of financing to SMEs by financial institutions and non-bank financial institutions in Sierra Leone, against movable collateral, including:
 - a. Types of collateral offered and accepted;
 - b. Financial products being offered/used;
 - c. Main active players serving the SME sector and;
 - d. Analysis of the history of Non-Performing Loans;
2. Contrast the level of credit extended in Sierra Leone against movable collateral to global benchmarks for the SME sector, as well as, compare what is being reported against the Bank of Sierra Leone statistics and filed at the Collateral Registry;

3. Analyse the size of the market for financing against movable collateral, that can be potentially tapped by financial institutions with suitable products and with the support of enabling infrastructure such as a collateral registry and credit reporting system;
4. Identify the current hurdles for financial institutions in accessing this market segment including a review of the steps, procedures and cost of registering a security interest in the collateral registry;
5. Identify percentage of loans to SMEs that are not approved based on collateral requirements and other factors;
6. Identify the various government institutions and/or administrative agencies where moveable collateral is required to be registered/notified if pledged asset is used as collateral;
7. Review prudential regulations and judicial framework for enforcement of claims for SME lending to assess any regulatory and enforcement constraint to scaling up SME finance, including these impacting women;
8. Compare the Collateral Registry data against the loans being reported to the Central Bank and filed with the Corporate Affairs Commission (CAC), and the Office of the Administrator and Registrar General (OARG) on movable collateral.
9. Analyze the gaps in the eco system which are needed to effectively create a movables based lending industry, including lack of secondary markets in the country, valuations expertise, collateral managers, etc., responding to some of the following questions:
 - Are there categories of movables goods that are frequently sold in a populated network of buyers? If so, what types of individual items are transacted inside that network?
 - Whether prices are consistent given similar type, quality and quantity of goods, or whether there is price volatility;
 - If prices are consistent, whether the network is reliable for setting second-hand values for the types of goods transacted therein;
 - Whether the market created by these buyers is liquid and can absorb the regular volumes of goods placed for sale;
 - Whether there are technological or other tools to assist in the listing of goods for sale;
 - Whether there is a network of valuers who can reliably predict the value of the goods sold in the future within this market, covering any specific valuation methodology used;
 - What tools are used in the market, online public auctions, online valuation tools, etc., are needed to support the industry;
 - Challenges for creation of such markets in the selected market segments;
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10. Recommendations to address the gaps in the ecosystem, e.g. for development of secondary markets and/or what product types would be relevant and could be easily introduced in the Sierra Leone market, e.g. are there any low hanging fruit;
11. Identify the financial institutions pioneering some of these products, and evaluate their success and approaches;

4. Deliverables

The consultant will be responsible for the following deliverables which should be disaggregated by gender to the extent possible:

1. A market study report, comprising (but not limited to) the following information:
 - a. Results of primary and secondary research on the current level of financing against movables in Sierra Leone

- b. Mapping of players in the financial sector that are currently providing financing against movables, including information on types of products and size of portfolio
- c. Gap in financing against movables/potential size of market, that is addressable by financial institutions
- d. Hurdles experienced by financial institutions in extending finance against movables (including the prudential regulations that are preventing the scale up of SME lending)
- e. Policy initiatives required to unlock greater level of movables-based financing
- f. Specific information on the state of the factoring and leasing industry in Sierra Leone
- g. Recommendations on the following:
 - Customer segments that can be targeted with movables financing products, including by gender;
 - Types of products – structure and pricing;
 - Geographies of focus with rationale;
 - Marketing approach.
2. At least one workshop with key stakeholders in the financial sector to understand the main reasons for low uptake of movables financing products in Sierra Leone.
3. A power point presentation of the report

5. Expected Level of Effort and Duration of the Assignment

1. The complete market study and one workshop are to be completed by June 20, 2020;
2. The firm will be expected to spend substantial part of the assignment in Sierra Leone;
3. The firm should demonstrate ability to translate research findings into policy recommendations and support for operational work;
4. The firm is expected to conduct minimum 3 missions and 3 workshops as follows:
 - i. kick off mission;
 - ii. interim mission;
 - iii. final mission;
 - iv. 1st workshop with key stakeholder groups for data gathering purposes, 2nd workshop/focus group to test survey with a sample group;
 - v. 3rd workshop to disseminate findings

6. Firm Experience and Qualifications

- Demonstrated record of achievement carrying out similar data collections, including market research, firm/household surveys, quantitative survey data collection, phone surveys, self-administered electronic surveys, qualitative interviews, focus group discussions. Prior experience carrying out this type of work in Sierra Leone is strongly preferred.
- Knowledge and skills in the areas of SMEs, WSMEs, finance, gender, women entrepreneurship, financial access, and financial services are critical.
- Knowledge of and experience working in West Africa, strong understanding of the local context in Sierra Leone is strongly preferred.
- Deep and demonstrable experience in the customer-centered design process.

- Strong and proven experience in customer experience and customer journey mapping, particularly in the developing world. Higher consideration will be placed on those with more specific experience in the financial services industry.
- Expertise in alternative delivery channels.
- Proven record of success delivering deliverables like those that will produced under this TOR is strongly preferred.
- The firm should have a record of and established protocols for data quality management for data excellence.
- Capacity to deliver high quality analyses and potential effective recommendations within short time horizons.
- Ability to work in partnership with multiple parties on a complex project.
- Strong interpersonal skills; experience working in a diverse and multicultural environment
- Excellent writing skills in English.

7. Local Participation

The consultant will be expected to identify and recruit an appropriately qualified local counterpart for the purposes of skills transfer, preferably a local firm or individual experts with demonstrated experience in the Sierra Leone banking sector.

The Project Fiduciary Management Unit of Ministry of Finance now invites eligible firms to express their interest in providing the services. The firm should provide information demonstrating having the required relevant qualification and experience for the assignment. The Consulting firm will be selected in accordance with Consultant's Qualification-based Selection method set out in the Consultant Guidelines: Selection and Employment of Consultants under IDA Grants by World Bank Borrowers, (July 2016, Revised November 2017 and 2018). The evaluation shall be based on the relevant qualification and experience of the firm for the assignment.

Further information can be obtained at the address below during office hours.

Project Fiduciary Management Unit
13a Howe Street Freetown
9:00am to 5:00pm Monday -Friday

Expression of interest must be delivered in a written form to the address below via email not later than Wednesday 24th February, 2021 at 4:00pm.

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