Ministry of Foreign Affairs of Denmark

DANIDA

SM 3:
Development Engagement Document

Support to Private Sector Development Phase III (SPSD III) 2016 - 2020

Engagement C: Rural Development Fund

Ghana

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ABBREVIATIONS

ABI Trust	Agricultural Business Initiative Trust
ARB	Association of Rural Banks
BoD	Board of Directors
BoG	Bank of Ghana
BSPS	Business Sector Programme Support
BUSAC	Business Sector Advocacy Challenge Fund.
CEO	Chief Executive Officer
CIMA	Chartered Institute of Management Accounting
COO	Chief Operations Officer
CUA	Ghana Cooperative Credit Unions Association
Danida	Danish International Development Agency
DKK	Danish Kroner
DP	Development Partner
EoD	Embassy of Denmark
EU	European Union
FBO	Farmer-based Organisation
FI	Financial Institution
FM	Fund Manager
GCIC	Ghana Climate Innovation Centre
GHS	Ghana Cedi
HRBA	Human Rights Based Approach
IMF	International Monetary Fund
INTOSAI	International Audit Standard System
ISA	International Standard for Audit
LGF	Loan Guarantee Facility
LoC	Letter of Credit
M&E	Monitoring & Evaluation
MF	Merger Fund
MFI	Microfinance Institution
MoF	Ministry of Finance
MSME	Micro, Small, and Medium Enterprise
NGO	Non-Governmental Organisation
NPL	Non-Performing Loans
OHS	Occupational Health and Safety
PFI	Participating Financial Institution
RCB	Rural and Community Bank
RDF	Rural Development Fund
RFWF	Rural Finance Wholesale Fund
RMFI	Rural Micro Finance Institution
RMOF	Risk Management and Operational Facility
S&Ls	Savings and Loan Companies
SDF	Skills Development Fund
SEF	The Sustainable Energy Fund
SM	Supplementary Materials
SME	Small and Medium Enterprise
SOP	Standard Operating Procedures
SPEED	Support Program for Enterprise Empowerment and Development

SPSD	Support to Private Sector Development programme
TA	Technical Assistance
TBD	To Be Decided
ToR	Terms of Reference
TSF	Training Seed Fund
USAID	U.S. Agency for International Development
USD	US Dollars
VfM	Value for Money

Exchange rates, 15. January 2016:

1 USD = 6.842 DKK
1 DKK = 0.572 GHS
1 EUR = 7.462 DKK

1 INTRODUCTION

The present development engagement document details the objectives and management arrangements for the development cooperation concerning "the Rural Development Fund" (RDF) as agreed between the parties specified below. The RDF is a new financial vehicle using already allocated funds from previous engagements. The engagement document complements the contractual agreement between the parties. The Danish support is supplementary to the support provided to the "Support to Private Sector Development, phase three (SPSD III)" as part of the Danish development cooperation with Ghana. Most of the activities under the RDF represent activities previously funded by Danida. The RDF consolidates the funds remaining from SPSD II and Business Sector Programme Support (BSPS I) and does not involve new funds.

2 PARTIES

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and

Ministry of Finance, Accra, Ghana

3 DOCUMENTATION

"The Documentation" refers to the documentation for the supported intervention, which is:

- SPSD III Strategic Programme Document (separate cover)
- Terms of Reference (ToR) for RDF Board of Directors (attached as annex 3)
- ToR for Rural Development Fund Manager (attached as annex 4)
- RDF Product Guidelines (included as Supplementary Material (SM) 9 F)
- Technical Review of Danida's support to Rural Finance in Ghana with particular focus on the Rural Financial Wholesale Fund (RFWF) and the Enterprise Empowerment and Development Funding Facility (SPEED) (included as SM 9 E)
- SPEED Impact Assessment Report (included as SM 9 D)
- Feasibility study on design and rationale of the Rural Development Fund (included as SM 9 C)

4 BACKGROUND

While Ghana has made important advances in providing banking services throughout the country, a substantial portion of the population remains excluded, and financing is consistently cited as a critical constraint in studies of agriculture, agribusiness, microenterprises, and small and medium enterprises (MSMEs). MSMEs often face difficulties meeting collateral and other requirements of formal financial institutions. Even for those potential borrowers who have access in principle, affordability may impose a further constraint, given persistent high interest rates. (For more details, see Annex 2).

Danida has long supported access to finance and capacity development of Rural Community Banks (RCBs), including provision of wholesale funds as well as provision of loan guarantees through universal banks and a savings & loans (S&L) institution, as follows:

i) Support Program for Enterprise Empowerment and Development (SPEED) controlled by a private fund manager (currently under liquidation) for the purpose of promoting working capital loans from RCBs to their clients;
ii) The RFWF offered through Association of Rural Banks (ARB) Apex Bank for the purpose of promoting term loans through RCBs to their clients;
iii) The Merger Fund (MF) offered through ARB Apex Bank for the purpose of defraying the costs of undercapitalized RCBs merging to create larger, more sustainable banks;
iv) The RCB Capacity Development Fund, established as a Training Seed Fund (TSF) offered through ARB Apex Bank for the purpose of subsidizing, on a reducing basis, training to RCBs that were rated as fair, marginal or unsatisfactory;
v) The Loan Guarantee Facility (LGF) is a cash-based guarantee to reduce risk to lenders engaged in agribusiness term finance, predominantly in Northern Ghana. LGF has initially been offered through three lenders (Stanbic Bank, UT Bank and Sinapi Aba Savings and Loan).

The RDF is being established to address several issues: consolidating various funds and vehicles being supported by Danida under a single, accountable and efficient management structure; providing a sustainable vehicle for wholesale funds; and providing access through a wider range of financial intermediaries. Moreover, a growing interest of universal banks and S&L in reaching out to rural areas indicates that the RDF could better achieve its financial access objectives by opening up participation to a wider range of financial institutions.

5 DEVELOPMENT ENGAGEMENT OBJECTIVE

The objective of the SPSD III Thematic Programme is **"Promotion of inclusive and greener economic growth through private sector development leading to increased income and better welfare of Ghanaians".**

Achievement of this objective requires, among other things, adequate financing available for the private investors in rural enterprises that generate income and improve energy sustainability and efficiency. The RDF Engagement will contribute to achievement of the programme objective through the following two outcomes:

- Increased growth of MSMEs within agriculture, agribusiness, rural micro/small and medium enterprises, renewable energy and energy efficiency through access to finance;
- Institutionalisation of RDF to sustain operations beyond SPSD III

In order to achieve the outcomes, the Rural Development Fund Manager as shown in the Results Framework will deliver a number of outputs.

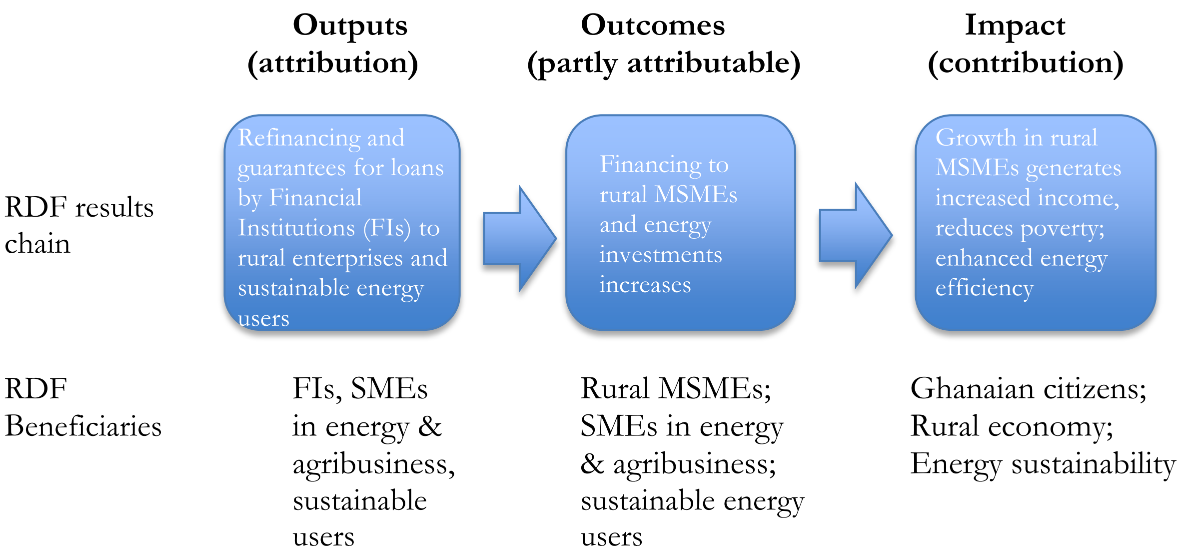
6 THEORY OF CHANGE NARRATIVE

The basic theory of change is that:

> *if* financial institutions have access to additional funds and guarantees for lending and offer relevant products for lending to agriculture, rural enterprises, sustainable energy and energy efficiency,
>
> *then* rural farmers, agribusinesses, sustainable energy users and businesses, and other rural MSMEs will have increased access to working capital and term loans,
>
> *resulting in* growth in rural enterprises engaged in agriculture, agribusiness, sustainable energy, manufacturing, services, commerce and other activities,
>
> *leading to* increased incomes, reduced poverty and enhanced energy sustainability in rural areas.

This logic is illustrated in Figure 1.

Figure 1: Intervention Logic for Rural Development Fund



Underpinning this theory of change are a number of assumptions:

- Financial Institutions (FIs) face liquidity, risk and information constraints that limit their lending to rural enterprises:
  - FIs are adequately capitalized to leverage additional funds for on-lending;
  - FIs have adequate knowledge about sustainable energy investments (by consumers as well as businesses) to develop and offer appropriate loan products.
- There is unmet effective demand that can meet FIs creditworthiness criteria;
  - Small and medium enterprises (SMEs) can provide the documentation required by FIs;
  - SMEs can meet FIs collateral requirements.
- Rural MSMEs can effectively utilize additional loans, despite persistent high interest rates:

  - Some long-term investments (including in renewable energy) offer sufficiently high returns to warrant long-term borrowing;
  - Working capital loans can generate sufficiently high returns for some MSMEs to reinvest profits in expansion without long-term borrowing;
  - Rural entrepreneurs are sufficiently financially literate to make rational decisions on whether to borrow and on what terms.
- Benefits and costs of investments in renewable energy and energy efficiency are adequately known.

In practice, a number of challenges must be resolved for the expected results to be realized:
- While the smaller RCBs in the poorer, rural parts of the country are indeed liquidity-constrained, they are also undercapitalized, impairing their ability to leverage additional funds for on-lending;
- High risks in agriculture, which provides the economic base for rural areas, and past experience with non-performing loans (NPL) makes financial institution averse to lending to rural enterprises;
- SMEs typically have weaknesses in their accounting, management and governance structures that may affect their creditworthiness;
- SMEs generally fall short of being able to meet the full amount of collateral required by financial institutions (which may be 150-200% of the loan amount);
- Energy audits may be needed to analyse the benefits to enterprises of energy investments in relation to the costs of borrowing.

The RDF initially addresses these challenges through three main instruments, namely:
- Access to short term (working capital) loans and long term loans for assets investments;
- Guarantees, which are provided to the financial institutions and typically will cover 50% of the risk of default on loans that are provided on the guarantee. In this way the FI's may lower their requirements for collateral and/or adjust the interest rate;
- Risk Management and Operational Facility, to enable the Fund Manager to undertake due diligence and to provide grant funds to prospective clients (FIs and SMEs) to share the costs of obtaining adequate documentation (for example, energy audits) and of resolving specific issues of capacity that might otherwise prevent them from being creditworthy.

The product mix will change over time and the FM will advise the Board of Directors (BoD) on the product mix including the possible introduction of other products.

7 RESULTS FRAMEWORK

The parties have agreed to measure progress of the outcome by four outcome indicators and progress of five outputs through twelve output indicators as follows:

Outcome 1	**Increased growth of MSMEs within agriculture, agribusiness, rural micro/small and medium enterprises, renewable energy and energy efficiency through access to finance.**
Outcome indicator 1.1	% Increase in value of loans disbursed to MSMEs by FIs through the RDF: (disaggregated by (i) agriculture/agribusiness; ii) renewable energy/energy efficiency; (iii) women entrepreneurs, and (iv) others

Baseline	At time of entry into program	(a) 0 - increase in loan portfolio to MSMEs; and (b) 0 - value of sustainable energy related loans.
Target	As of completion of support	(a) 10% increase in loan portfolio to MSMEs within agriculture (b) double of value of sustainable energy related loans - at the time of application to RDF (adjusted for inflation)
Outcome indicator 1.2		% Increase in number of MSMEs obtaining loans by FIs through the RDF (disaggregated by (i) first time MSME borrowers, (ii) agriculture/agribusiness; iii) renewable energy/energy efficiency, (iv) women entrepreneurs, and (v) others)
Baseline	At time of entry into program	To be decided (TBD)
Target	As of completion of support	TBD
Outcome 2		**Institutionalisation of the Rural Development Fund to sustain operations beyond SPSD III**
Outcome indicator 2.1		Establishment and engagement of an institutional structure, suitable for long term sustainable management of the Funds, beyond SPSD III
Baseline	At time of entry into program	No institution identified but preliminary analysis conducted
Target	As of completion of support	Institution engaged and contracted
Output 1		**Financial institutions apply for Lines of Credit and refinancing facilities for on-lending to agriculture and rural enterprises**
Output indicator 1.1		Number of FIs approved for Letter of Credit (LoC) and Refinancing
Target	2020	TBD
Output indicator 1.2		Total value of investments financed through RDF for (i) working capital and (ii) term loans
Target	2020	TBD
Output 2		**Financial institutions introduce energy products and seek funds for on-lending for sustainable energy investments**
Output indicator 2.1		Percentage of participating financial institutions offering an energy-specific product
Target	2020	20%
Output indicator 2.2		Total value of energy investments financed through RDF for (i) working capital and (ii) term loans
Target	2020	TBD
Output 3		**Financial institutions participate in RDF guarantee scheme and SMEs apply for guarantees for loans to agriculture and rural enterprises**
Output indicator 3.1		Number of FIs participating in the RDF guarantee scheme and the total value of the guarantee commitments by FIs.
Target	2020	TBD
Output indicator 3.2		Total number of SMEs approved for loans under the FI guarantee schemes and the total value of loans approved
Target	2020	TBD
Output indicator 3.3		Total value of investments (other than energy) guaranteed through RDF for (i) working capital and (ii) term loans
Target	2020	TBD
Output 4		**Financial institutions and SMEs seek guarantees for loans for sustainable energy investments**
Output indicator 4.1		Total number of guarantees approved for investments and the value of

		investments guaranteed through RDF for (i) working capital and (ii) term loans for sustainable energy investments
Target	2020	TBD
Output 5		**Funds for on-lending and guarantees sustained**
Output indicator 5.1		Recovery rate of loan funds satisfactory
Target	2020	At least 98% of RDF loan funds recovered from FIs and 95% by FIs from their borrowers
Output indicator 5.2		Real value of RDF Funds maintained
Target	2020	Amount of funds at closing is equivalent to initial amount adjusted for inflation
Output indicator 5.3		Sustainable institutional arrangements arranged for the RDF
Target	2020	Exit strategy for Danida and sustainable institutional arrangements proposed by Mid-term Review of programme

Specific targets will be revised and adjusted based on advice from the Fund Manager and endorsed by the BoD. The product mix and targets will also be subject for discussion during the Mid-term review of the SPSD III. More elaboration on each indicator including collection of necessary data is provided in Annex 6 of the Strategic Programme Document, "Monitoring & Evaluation of SPSD III".

8 LESSONS LEARNED

The strategic focus of this engagement (section 9) and the management arrangements (section 14) reflect lessons learned from the SPEED Fund and RFWF. One lesson is that lending for agriculture and rural MSMEs, which are dominated by self-employment, is indeed risky and requires careful screening and effective management at all levels in order to ensure productive use and strong recovery of funds. SPEED was established as a company limited by guarantee, with contracted management consisting of a Fund Manager and a Credit Officer. One lesson is that engaging professional and independent management proved more accountable and transparent. The ARB Apex Bank was able to recover under the RFWF its funds by direct deduction from the accounts that the participating RCBs are obliged to hold with it, but the recovery from clients of the RCBs proved to be more difficult. Processes and criteria, as well as awareness by RCBs, appeared to be better under SPEED than RFWF. Negotiations to make the funds available to the ARB Apex Bank on a permanent basis could not be concluded successfully, in part over issues of governance and accountability. Further, it has been noted that there is potential conflict of interest between the development objectives of the RDF and the role of the ARB Apex Bank as a "mini central bank" for the RCBs. Hence, the RDF has engaged a professional Fund Manager. Nevertheless, it will be essential to develop an exit strategy to turn the funds over to a Trust, a financial non-governmental organisation (NGO) or similar that can continue to manage them consistent with RDF objectives beyond the end of the SPSD III.

Another lesson is that, while RCBs offer a very important means of reaching the targeted rural beneficiaries, due to their widespread distribution and mandate to serve their rural communities, they also present certain weaknesses and risks that must be taken into account. While their need for additional liquidity to meet client demands for loans presents an opportunity for productive use of RDF products, it also may reflect undercapitalization of those RCBs. Furthermore, many RCBs have NPLs exceeding 10-20%, even 40% of their loan portfolios, especially when Government or donor funds are known to be the source.

Both undercapitalization and poor recovery represent threats to the long-term sustainability of the financing objectives of RDF. These concerns are addressed in the design of RDF in several ways: (i) imposing stricter eligibility requirements for FIs (especially regarding portfolio performance) than was the case under RFWF; and (ii) including funds for due diligence and technical assistance (TA). The latter can also be used to screen and support applications of larger SMEs for portable guarantees and energy investments.

One lesson learned from efforts to provide guarantees for loans to SMEs under SPSD II is that FIs in practice often seem more interested in having additional liquidity available than actually applying it to the intended purpose. At the end of SPSD II, funds that had been advanced to universal banks, but had not yet been used to back loans to SMEs, were returned to Danida. Hence, RDF is designed to offer investment-backed guarantees rather than cash-backed guarantees (under which the funds are advanced to the FI). Nevertheless, experience elsewhere indicates that commercial banks often are reluctant to go through the process and delays of submitting pre-approved loan portfolios; hence, the option will be considered to provide lines of credit under certain circumstances to FIs that have performed well under the Guarantee product but face constraints in terms of liquidity or term funds.

A further lesson is that it is important to have a detailed operational manual specifying clearly the eligibility criteria and appraisal process both for FIs and applicants, as well as management, accounting and other practices for managing the fund.

9 STRATEGIC FOCUS OF ENGAGEMENT

The RDF seeks to ease the liquidity and capital constraints on financial institutions operating in rural areas in order to better meet the demand for financing by private micro, small and medium enterprises (MSMEs) in agriculture, agribusiness, energy, manufacturing, services and commerce, as well as by consumers for renewable energy products (such as solar home systems). Studies of MSMEs in Ghana, as elsewhere, consistently identify lack of access to finance as a critical constraint on their ability to grow and invest (see Annex 2). Addressing this constraint requires both working capital and term loans, as well as guarantees to help mitigate risk and meet collateral requirements. Because high interest rates often pose a problem for the affordability of term investments for MSMEs, greater availability of working capital can enable them to increase profits, which are then available for reinvestment. For some investments, including renewable energy, the long-term payoffs may be sufficient to offset high interest rates, if up-front term financing is available. Further constraints on the ability of MSMEs to obtain loans, are their difficulties in providing the documentation and collateral required by financial institutions and weaknesses in management, accounting and operational systems.

Financial institutions face two main problems in meeting demands of rural MSMEs and agriculture. RCBs, which are the primary retail financial institutions in many of the smaller towns and poorer, rural areas of the country, are largely undercapitalised. Thus, they depend on external lines of credit for much of their lending. And all financial institutions lack long-term funds for term lending (to avoid a term mismatch with their predominantly short-term deposit base), including S&L Companies which have expanded aggressively to serve the SME market (especially in peri-urban areas), and some universal banks.
The RDF will be managed by a FM that has been contracted for that purpose. The FM, who has successfully won the tender late 2015, will report for duty in Q1 of 2016 and be

contracted initially for 3 years with the possibility for extending the contract for up to 2 years. RDF will initially provide three instruments to help address such problems (described further below):

- Loan Facilities including access to short term (working capital) loans and long term loans for assets investments;
- Guarantee Facility including risk sharing and the possibility to serve as collateral;
- Risk Management and Operational Facility, including TA to partly cover energy audits, business plans, market and due diligence studies etc.

In addition, the RDF will continuously seek to identify other instruments that can alleviate constraints such as the undercapitalisation of RCBs, where a Mezzanine debt (capitalisation) facility can be considered. However, such a facility will require that the RDF is securely anchored in a Trust, a financial NGO or similar as the required time horizon for this facility will exceed five years. (For details on Mezzanine debt, refer to Annex 5)

Loan Facilities

The RDF will initially offer two types of loan facilities to FIs for on lending: (i) working capital; and (ii) term finance. The loan facilities may be available as re-financing as well as lines of credit directly to the FI's. "Re-financing" is different from lines of credit (wholesale financing) in that the FI must first approve the loan candidates before submitting a portfolio to obtain financing from the RDF to on-lend to new loan candidates. Experience has shown that advancing funds reduces the incentive for FIs to actually utilize them as intended. Nevertheless, the RDF BoD may consider proposals from universal banks, S&L Institutions and RCBs for a line of credit for term lending if they have successfully participated in the Guarantee Facility but have difficulty expanding the portfolio due to constraints on liquidity or availability of term funds.

Initially, loans in the following subsectors (or similar categories, according to how the Participating Financial Institution (PFI) classifies them) are eligible: agriculture; agribusiness; energy; microfinance; manufacturing; services; commerce; and other types of rural MSMEs. Energy may also include term loans of 12 months or more to households to invest in solar home systems. RDF funds are not available for mining, salary-based loans, real estate, alcoholic brewages or illegal activities.

Guarantee Facility

Guarantees are used as collateral enhancement for borrowers. When central banks require lenders to secure loans with collateral, and acceptable collateral is difficult to come by, guarantees are a way to overcome this difficulty. The RDF offers two types of guarantees: (i) to FIs, to cover 50% of losses on qualified term loans and loan portfolios; and (ii) portable guarantees (letter of guarantee) to SMEs operating in the agribusiness, manufacturing or sustainable energy sectors, or that wish to invest to improve their energy efficiency. The latter product enables the SMEs to shop around for financing with a guarantee already in hand. All guarantees will be backed by the RDF's indemnity fund. Experience from SPSD II with up-front cash backed guarantees shows that, once deposited, there was little incentive for the FI actually to generate the intended loans, and the guarantees were underutilized. Furthermore, for its own sustainability, the RDF needs to generate income on the guarantee funds that are set aside.

Risk Management and Operational Facility (RMOF)
Funds under the RMOF are available to the FM to help meet objectives of the RDF through proactive outreach efforts, obtaining required documentation, building capacity, providing incentives, and other measures that the FM (with the approval of the BoD) deem likely to mitigate risks and overcome challenges to implementation. Eligible activities will initially include:

a) Outreach efforts to targeted client groups, in particular with respect to energy-related investments and participation of women;
b) Due diligence investigation of financial institutions applying to participate and of major funding or guarantee proposals;
c) Costs of assessing the demand for and promoting financing of sustainable energy investments;
d) Cost-sharing of energy audits, feasibility studies, business plans and TA to establish the viability of proposed investments in sustainable energy;

Cost sharing of TA required addressing weaknesses in SMEs that might impair their ability to repay loans, such as financial management, operating systems, organizational structure.[1]RMOF funds are intended to give the FM the flexibility needed to achieve the RDF's objectives for financing investments in sustainable energy, agribusiness, rural SMEs and RCBs. This recognizes that an important constraint on financing such ventures is the risk resulting from incomplete information and weak management and operating systems. By sharing the costs of rectifying problems identified in the appraisal process, the FM is in a position to incentivise the applicant to undertake the needed steps before accessing the finance (or as a condition for a second tranche), thus enhancing both the creditworthiness of the applicant and the probability of repayment.

Furthermore, special attention and incentives are given to sustainable energy promotion and investments under each of the activities under RDF. With the cancellation of the originally proposed component for Sustainable Energy for Business due to unavailability of funds, consideration was given to establishing separate windows for loans, guarantees and TA for energy projects. However, it was noted that demand of energy-related SMEs for these products has not been well established or surveyed. Although consumer demand for solar products is now on the increase, the potential of agribusiness (as well as other MSMEs) to utilize solar, biomass or wind power for operations or for backup has yet to be fully explored. The development of local business to manufacture as well as sell renewable energy products is likewise in the nascent stage. Although interest is growing in these areas, it would be risky to dedicate a specific window and allocate funds exclusively for sustainable energy, as demand might not materialize on the scale desired. Instead, the sustainable (green) energy objective has been mainstreamed as a priority into the RDF and the Risk Management and Operational Facility will specifically support proactive measures such as energy audits, market surveys, promotional efforts, and other incentives.

[1] Service providers for TA and other cost-sharing activities could be identified by the beneficiary SME or FI (subject to approval); or the FM could contract out the provision of business advisory and technical services, if warranted.

10 SPECIAL CONSIDERATIONS

RDF will address special considerations in connection with elaboration of the eligibility criteria for support. In particular, the partners involved will be expected to respect and promote human rights and mainstream environmental issues and gender equality in all their operations.

It will be ensured that no harm is done to the environment because of the support. When developing the RDF Operations Manual, emphasis will be given to develop a solid screening mechanism which shall ensure that projects with a green growth profile are given priority (i.e. sustainable energy and climate smart agriculture projects), as well as ensuring that projects posing a potential risk to the environment undergo an Environmental Impact Assessment. Efforts will be made to sensitize FIs on a human rights-based approach (HRBA) and to facilitate them to mainstream environmental and gender considerations. Special attention will be given to Occupational Health and Safety (OHS) issues, at least with respect to direct applications by SMEs. Therefore, all applications by SMEs for portable guarantees will be OHS screened, and in instances where the working conditions do not meet basic standards, assistance from the RMOF may be considered to improve the OHS conditions.

FIs will be required to ensure that loan funds are as accessible to women entrepreneurs as to men. This should be represented by a gender policy or operational guidelines that ensure non-discrimination and proactive efforts to include women. It also means that FIs should disaggregate their loan portfolios (those intended for RDF support) and reports by gender. If monitoring data indicate that the representation of women in the RDF portfolio does not exceed that of the FIs at baseline, the FM may utilize the RMOF toward the costs of proactive measures to engage women as RDF clients. A specific outcome indicator is included for increasing the share of women in loan portfolios funded by RDF relative to their previous participation.

Synergies with other SPSD III Engagements
Achievement of RDF objectives is supported by the other Engagements of SPSD III. The Business Sector Advocacy Challenge Fund (BUSAC) (Engagement A) helps to strengthen major business associations in advocating for improvements in the regulatory and business environment that affects the ease of doing business and growth of the MSMEs targeted for financing through the RDF. This includes farmer-based organisations (FBOs) and associations of informal enterprises in various subsectors, which may apply for loans directly or may facilitate their members to be aware of and seek loans made available through the RDF. The Skills Development Fund (Engagement B) helps to raise skills both in the labour market generally and in specific enterprises, including the informal sector (self-employed microenterprises). These interventions help to remove constraints, raise productivity and lower costs for the types of enterprises expected to benefit from the RDF engagement, and thus enhance their creditworthiness with respect to FIs. Finally Engagement D, Ghana Climate Innovation Centre (GCIC) will be implemented parallel with Engagement A (BUSAC III), Engagement B (SDF II) and this present Engagement C, (RDF). The GCIC has been financially supported by the SPSD II, but due to delays in the start-up phase implementation is planned to start in 2016. Coordination between the RDF and the GCIC is essential, as the GCIC will also include an access to finance facility. Fund managers from all Engagements A-D, will participate in the SPSD III Programme Coordination Committee, which will be entry point for ensuring collaboration and synergy across the four engagements of SPSD III.

11 TRANSITIONAL ISSUES, EXIT AND SUSTAINABILITY STRATEGY

Initially, Danida has engaged a FM to administer and implement the RDF under the oversight of a Board of Directors. For the long term, Danida is seeking a Trust or a Financial NGO as the institutional arrangement to provide oversight for the RDF and sustain its operations beyond the current project. Danida has initiated the search for an appropriate institutional arrangement in 2015 consistent with laws and regulations in Ghana. In this regard, a limited due diligence and follow up meetings were carried out on an existing Ghanaian Trust to understand their legal structure, modus operandi, ownership etc. The process of identification of such a trust is still being pursued. If an appropriate existing trust or financial NGO is not present in Ghana the establishment of a new company limited by guarantee will be planned and carried out well before 2020 when the SPSD III ends. Lessons learned from the institutionalization of the Danida funded Agribusiness (ABI) Trust in Uganda, which bear semblance to the RDF will be used as a benchmark to minimize risks and associated challenges of the institutionalization route to be taken.

The FM contract for the RDF is for an initial period of 3 years, renewable for another 2 years if need be. As a revolving and refinancing fund, the nature of the RDF is to grow over time and to survive off its own earnings and serve as a financing buffer for Ghana's private sector into the foreseeable future. Ghana's attainment of a lower middle income status implies that development aid to Ghana will reduce over time. The RDF is to position itself as a credible, independent and transparent vehicle to potentially attract contributions from other Development Partners (DPs) who see the model as useful. On the backdrop of Danida's very successful delegated cooperation agreements with for example the U.S. Agency for International Development (USAID) and European Union (EU) under the BUSAC Fund, Danida will seek to leverage on past collaborations with other DPs to increase the funds available for the operations of the RDF as the financial sustainability of the RDF cannot be perpetual at the current funding level. Experiences from earlier access to finance engagements show that the impact sustainability of such schemes is commendable. For example, an impact assessment done for the SPEED showed that beneficiaries increased their monthly and annual sales while contributing to their social activities and family wealth building and asset acquisition. What remains is the institutional sustainability to ensure accountability, value for money and a going concern for the RDF. The two options available as explained above are being vigorously explored and a decision would be reached in good time to ensure that the RDF remains a private sector led financing vehicle that would be an endearing legacy of Danida's support to Ghana's private sector development.

12 RISK MANAGEMENT

While Annex 4 (Risk Management Framework) of the SPSD III Strategic Programme Document presents the programme level risks, the risk matrix below demonstrates the risks related to the RDF engagement areas.

Risk Factors	Likelihood	Background to assessment of likelihood	Impact	Background to assessment of potential impact	Risk Response	Residual Risk
Contextual risks						
Macro-economic instability	**Likely**	Rising government deficit, continued currency depreciation and persistent high inflation may continue to impact macro-economic instability.	**Minor**	There is a possibility of these conditions deteriorating further and affecting the conditions for financial institutions and for MSMEs accessing finance.	An agreement has recently been made with the International Monetary Fund (IMF) on a programme to halt the macro economic decline.	**Minor**
Programmatic risks						
Low financial literacy and awareness of availability of loans from RDF FIs	**Unlikely**	Many smaller MSEs lack sophistication about financing	**Minor**	The pool of MSMEs interested in financing is relatively large	FM can use RMOF to sensitise potential clients (through fin-ancial intermediaries)	**Insignificant**
Lack of knowledge about sustainable energy investment opportunities and viability	**Unlikely**	Solar and other renewable energy are not yet widely used (or produced) by MSMEs	**Minor**	General awareness about solar energy is increasing; The market can develop slowly without affecting the overall success of RDF	FM can use RMOF to inform FIs and potential clients and to undertake energy audits	**Minor**

MSMEs unable to provide adequate documentation required by FIs	**Likely**	MSMEs have difficulty meeting collateral, audit and other requirements	**Minor**	The pool of SMEs able to provide documentation (with or without TA) is relatively large	FM can use RMOF funds for TA to help applicants meet requirements	**Minor**
Insufficient number of quality applications to the RDF	**Rare**	Demand for finance is generally high; this has not been a major problem in the past	**Major**	Low demand and low quality of applications would impair the ability of the Fund to disburse and meet objectives	Intensify promotion of RDF, reassess how RMOF can be used to enhance quality	**Minor**
SMEs applying for guarantees have management, operational or other shortcomings that limit creditworthiness	**Likely**	SMEs often have some internal constraints that may deter a cautious lender or guarantor	**Minor**	Inability of SMEs to qualify for guarantees would seriously impair that product, but flexibility across products would enable RDF still to achieve overall objectives	FM can use RMOF for due diligence and TA to help SME applicants improve their viability	**Insignificant**
Financial institutions not interested in RDF products	**Rare**	Interest has been high in the past; RDF is open to a wider range of institutions	**Minor**	The wide range of products and eligible financial institutions makes means that lack of interest in some areas can be offset in others	FM to proactively engage RCBs, S&Ls and selected universal banks; RMOF funds available for sensitisation efforts	**Insignificant**
Some RCBs insufficiently capitalized to be able to leverage funds	**Likely**	Many RCBs are unable to meet minimum capital requirements or are fully leveraged	**Minor**	Problems in some RCBs can be offset by those with adequate capital and through other types of FIs	The RDF will re-focus on stronger RCBs, S&Ls and universal banks as clients	**Insignificant**

Poor repayment performance by borrowers	**Unlikely**	Poor repayment has been a persistent problem in past schemes for lending to MSMEs	**Minor**	Repayment perfor-mance varies greatly across FIs and types of clients, but experience from SPEED and the RFWF will assist in hedging the risk	No lending to FIs with high level of None Performing Loans (NPLs); tighten eligibility requirements; use RMOF to address problems	**Minor**
A Rural Development Fund will not be sustained after SPSD III	**Unlikely**	A possible partner has been identified; requires negotiation, and may require setting up new entity. Attracting additional funds will be necessary to sustain costs of FM	**Major**	Failure to resolve sustainability of the fund would reduce the amount of funds available to continue supporting RDF objectives in future	5 years should be sufficient to make arrangements and attract additional funds	**Minor**
Institutional risks						
RDF Manager misappropriates funds. Funds not used for intended purpose	**Rare**	The RDF Manager has been selected on a competitive international tender, and will follow detailed operational guidelines	**Major**	The contract will be terminated immediately, as it will have immense influence on the further implementation. Delays will be encountered when recruiting a new FM	Establishment of a very competent BoD and regular monitoring of RDF Manager, including independent audits. If misuse occurs, contract to be terminated immediately	**Insignificant**

Poor value for money i.e. weak results (reputational risk for Denmark)	**Rare**	Applying lessons learned from SPEED and RFWF, RDF design emphasizes performance-based selection criteria and should minimize risk of non-repayment	**Major**	Poor value for money would include failure to disburse funds and limited recovery of loan funds, implying low impact on enterprise growth and unsustainability of the Fund	More selective approach to FIs than in past; emphasis on meeting minimum criteria. The FM is engaged on a performance basis and is therefore incentivised to ensure value for money. Management, reviews, risk reviews, audits and monitoring will regularly assess the value for money	**Minor**

While the responsibility for monitoring and taking action on the strategic risks rests with the Danish Embassy, the RDF Board of Directors (see Annex 3) is responsible for any action on the operational risks.

13 INPUTS

The following resource envelope will be allocated to the RDF engagement (approximate figures as the final calculation is subject to interest gained and or defaults and thus will be ascertained when the FM is in position):

#	Budget DKK '000					
Total funds under management		2016 *)	2017	2018	2019	2020
1	Loan Facilities	91,196	Depending on FM advise and performance			
2	Guarantee Facility	70,278	Depending on FM advise and performance			
3	Risk Management and Operational Fund Facility	1,000	Depending on FM advise and performance			
TOTAL		**162,474**	**Depending on FM performance**			
Management Contract (planned disbursements)						
4	Management contract, operational costs etc.	6,014	3,435	3,435	3,581	3,582

Note: The management contract has a total value of DKK 20,047,000, over 5 years, and will be paid from the "Total funds under management", as there will be no budget allocation from Danida for the RDF during 2016-2020.

*) The final composition between the three facilities (1-3) for 2016-2020 will be advised by the Fund Manager and approved by the Board of Directors.

A detailed engagement budget is provided in Annex 1.

The initial product mix for the three above mentioned facilities will be proposed by the Fund Manager based among other on the feasibility study on the design and rationale of the RDF. The Board of Directors will discuss and finally agree on the budget for each of the facilities.

14 MANAGEMENT ARRANGEMENTS

The RDF will operate under the oversight of a BoD, which will include representatives of the Ministry of Finance, Danida and possibly other development partners and qualified but disinterested private bankers and investors (see Annex 3). The BoD's role includes:

(i) ensuring that the annual and quarterly work plans, including product mix and budgets are in line with BoD requirements;
(ii) ensuring that investment plans for the different RDF facilities are reasonable and appropriate;
(iii) approving loans above a stipulated limit, payouts of guarantee claims, and investments;
(iv) approving changes to staffing;
(v) approving compensation and incentive payments for the Fund Manager;
(vi) regularly monitoring performance of the total fund and its constituent products; and
(vii) approving the annual audit of all funds.

A Fund Manager has been recruited through international competitive bidding and will be responsible for day-to-day management of the fund (see Annex 4). The FM will liaise with the RDF BoD on all matters and provide quarterly reports on progress. The FM will include three senior officers: a Chief Executive Officer (CEO), a Finance Officer and an Investment Officer. Fund operations will be conducted through two committees. Terms of reference for the committees including appointment of members will be developed and addressed by the Fund Manager in the start-up phase in Q1 of 2016. The Portfolio Management Committee ensures financial performance of the various assets and adequate diversification of risk, and submits an annual Investment Plan to the Board for approval. The Investment Committee oversees the placement and performance of monies with PFIs and oversees the management of all guarantees.

15 FINANCIAL MANAGEMENT

Danida will transfer funds, and the responsibility to manage the funds, directly to a dedicated account opened by the RDF FM with a reputable bank with interbank internet facility. The management contract for the FM has a total value of DKK 20,047,000, over 5 years, and will be paid from the "Total funds under management", as there will be no budget allocation from Danida for the RDF during 2016-2020. When a financing application from a FI is approved, the FM will disburse funds to the FI's account. When a guarantee application is approved, the FM will ensure that corresponding amounts of investment funds are set aside to cover the guarantee, if called. In the case of cost-sharing arrangements, TA, or direct contracting of services by the FM, the FM will disburse funds to the service provider's bank account upon presentation of evidence of satisfactory delivery of the services. The RDF FM has prudential responsibility of funds and shall ensure that funds are used in accordance with the approved budgets and operational guidelines. The FM will be required to develop procurement plans for approval by the RDF BoD. Financial reporting shall comply with the conditions set out by Danida for decentralised financial management. The FM will ensure that a financial audit is undertaken each year and the financial statements are prepared according to internationally accepted accounting standards and handed over to the auditor. The FM is also responsible for contracting annual audits of the financial statements and implementing any audit recommendations.

All contractual matters, including payment of operational costs and fees/salaries, between the RDF FM and Danida/Embassy of Denmark will be handled according to the contract between the two parties.

16 MONITORING & EVALUATION

Monitoring and evaluation will be conducted at two levels. The RDF Manager will be responsible for monitoring RDF interventions according to the Results Framework. At the SPSD III programme level, a monitoring and evaluation (M&E) Consultant with expertise in complex outcome-related monitoring will be in charge of M&E, including establishment of a baseline for assessment of progress vis-à-vis outcome and objective-level indicators. The FM may assist the SPSD III M&E Consultant with collection of agreed data. For more details on Monitoring and Evaluation please see Annex 6.

Audits and Evaluations: The relevant financial statements shall be audited annually by an audit firm or audit institution in accordance with International Standard for Audits (ISA) or International Audit Standard System (INTOSAI). Danida shall approve the auditor. The audits must be completed within six months after the close of each financial year. Danida may commission special audits like procurement audits, value for money (VfM) audits and evaluations at any time during implementation.

Corruption and irregularities: Danida administers a zero-tolerance for corruption across all programmes. In case of irregularities or suspected case of mismanagement on the part of the implementing partners, the Embassy will report this to headquarters in Copenhagen and furthermore such reports will be made publicly available.

SIGNATURES

Date:	**Date:**
______________________	______________________
Ministry of Finance (MoF)	Embassy of Denmark, Ghana

ANNEX 1: RDF ENGAGEMENT BUDGET IN DKK '000

Origin of Budgeted Funds

The funds allocated to the Rural Development Fund represent carryovers from previous similar programmes supported by Danida (Table 1.1). These consist of estimates including DKK million 67,5 wholesale funds currently under management by ARB Apex Bank and SPEED and DKK million 70,3 from guarantee funds; and DKK million 24,3 from funds originally allocated for training, mergers, capitalization, and other aspects of capacity building. These funds will be made available for the Fund Manager under the Rural Development Funds.

The product mix for the RDF going forward will be recommended by the Fund Manager and approved by the Board of Directors.

Table 1.1: Estimated Funds Carried over from Previous Programmes in '000

Current product mix	GHS	DKK	USD
1. Wholesale funds			
- RFWF (ARB Apex Bank)	20,785	36,691	5,365
- SPEED	17,437	30,780	4,500
Sub-total	***38,222***	***67,471***	***9,865***
2. Guarantee funds			
- Sinapi Aba	14,827	26,173	3,827
- UT bank	3,697	6,526	954
- Stanbic	11,716	20,679	3,024
- AVCF unspent balance	9,574	16,900	2,471
Sub-total	***39,814***	***70,278***	***10,276***
3. Capacity building, mergers			
- Training Seed Fund	1,034	1,825	267
- RF unspent balance	12,973	22,900	3,348
Sub-total	***14,007***	***24,725***	***3,615***
GRAND TOTAL	**92,043**	**162, 474**	**23,756**

ANNEX 2: SUMMARY OF CONTEXT FOR RDF

Observations on Key Aspects of Financial Inclusion and Constraints

While Ghana has made important advances in providing banking services throughout the country, a substantial portion of the population remains excluded, and financing is consistently cited as a critical constraint in studies of agriculture, agribusiness, microenterprises, and small and medium enterprises (MSMEs).

Financial inclusion

- "Ghana [has] a high percentage of the population that is "banked" (34 per cent) relative to other Sub-Saharan African countries outside southern Africa" (Steel, 2015, p. 3)." This is due in large part to the role of the RCBs, which have as many outlets and clients as the entire commercial banking system (although only on the order of 5per cent of the assets), and are much more broadly spread across the country.
- "However, the substantially greater use of informal finance in Uganda and Kenya gives them lower rates of financial exclusion (30 and 33 per cent, respectively) than Ghana (44 per cent). East African countries have also seen a greater reduction in financial exclusion than Ghana in the last three years through the use of Mobile Money" (Steel, 2015, p. 4).

Financial constraints

- "Identified problems include high and uncertain interest rates, poor access to credit by Small and Medium Scale Enterprises (SMEs), lack of a long term debt market…" (Chognuru, 2015, slide 10).
- "Poor access to financial credit has been identified as the key impediment to the operations of SMEs" (Bank of Ghana, 2007, p. 7).
- "Credit constraints remain a problem for agriculture" (MOFPED, 2008, p. 6).

Even for those potential borrowers who have access in principle, affordability may impose a further constraint, given persistent very high (real and nominal) interest rates. The base rate (for prime customers; SMEs would pay several points higher) of the major universal banks in December, 2015, ranges from 22 to 32 per cent per annum, with inflation around 17-18 per cent. RCBs typically charge interest at 30-35 per cent on individual (secured) loans, and around 4 per cent per month (flat rate) on microfinance group loans.

Structure of the Financial System

A special feature of Ghana's financial system is the presence of over 140 RCBs, with over 700 outlets throughout the country, including in rural and poorer parts of the country that have been underserved by commercial banks. Since 1976, RCBs have been licensed and supervised by the Bank of Ghana (BoG), and since 2002 they have received services (such as cheque clearing, cash movement, treasury functions, money transfer, and training) from the ARB Apex Bank, which is owned by the RCBs and functions as a 'mini central bank' for them. RCBs have been a focus of credit under the SPEED Fund and Rural Finance Wholesale Fund, as well as a channel for various government and donor programs to reach targeted populations, especially in rural and poorer areas. Adoption of good-practice microfinance by RCBs has helped expand the 'banked' share of the population, as well as the profitability of the banks. While 20-25 RCBs regularly place among the top 100 firms in the Ghana Investment Promotion Centre's Club 100, a much larger share of RCBs suffer from problems of under-capitalization, NPLs, and weak governance.

S&L Companies have been increasingly important in recent years in expanding access to finance, although their focus has been more on MSMEs in peri-urban areas than on agriculture and rural areas. This category has enabled financial non-governmental organizations and moneylenders to transform into BoG-licensed financial institutions, as well as attracting some foreign investment. They can be key partners in reaching SMEs. One S&L Company participated in Danida's guarantee scheme under SPSD II.

Although the universal banks dominate the financial systems in terms of assets and liquidity, they have traditionally showed less interest in rural areas, agriculture and SMEs, due to costs and perception of risk, often borne out by experience. Nevertheless, steady economic growth, including in rural areas and agro-based industries, as well as competitive pressures are inducing a number of universal bank to move more aggressively into rural areas and SME lending, if risks can be mitigated. Introduction of Mobile Money/Pay in Ghana is at an early stage but it is expected to secure a much more prominent foothold in the years to come. This will again lead to changes in the financial landscape, where universal banks are expected increasingly be looking at the financial opportunities in rural Ghana.

Credit unions have been expanding steadily, with over 500 currently in operation. They are generally well regulated by the Ghana Cooperative Credit Unions Association (CUA), in collaboration with the Department of Cooperatives, with which they are registered. As savings-led institutions with a limit on how much members can borrow relative to their shares and savings, they have generally not sought outside funding beyond the Central Finance Facility of CUA.

In addition, Ghana has over 700 other microfinance institutions (MFIs) that have been licensed by BoG, including financial NGOs, Microfinance Companies, and Moneylenders, as well as Savings Collectors registered with their association. BoG imposed regulations on the sector in 2011 due to over-expansion, mismanagement, and increasing collapses, especially of for-profit microfinance companies that had improperly been mobilizing savings and 'investments' from the public, often without proper understanding of financial management. These MFIs are not candidates for financing under the RDF.

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International Fund for Agricultural Development (IFAD), 2008, Rural and Agricultural Finance Programme (RAFiP): Project Design Report, Working Paper 2: "Strengthening the Rural Banking Network for Outreach, Sustainability and Competition. »

Ministry of Finance and Economic Planning (MOFPED), 2008, "Agricultural Finance Strategy and Action Plan."

Steel, William F., 2015, "Ghana's Microfinance Sector: Risks and Strategic Options for Financial Inclusion," paper prepared for the World Bank Ghana Country Office, Accra.

ANNEX 3: DRAFT TERMS OF REFERENCE FOR THE RDF BOARD OF DIRECTORS

1. Background

The Rural Development Fund (RDF) is being set up by Danida to bring together several products and activities that were implemented by different agencies under previous engagements. Danida is engaging a Fund Manager (FM) to administer and implement the RDF. For the long term, Danida is seeking a Trust or financial NGO that can continue to manage them consistent with RDF objectives beyond the end of the SPSD III. In the meantime, a governance structure is needed in order to set policies, make decisions, and provide oversight for implementation of the RDF.

2. The Rural Development Fund

The RDF is intended to achieve the outcome of increased growth of MSMEs within agriculture, agribusiness, rural micro/small and medium enterprises, renewable energy and energy efficiency through access to finance. In order to achieve the outcome, the RDF offers main products:

- Access to short term (working capital) loans and long term loans for assets investments;
- Guarantees, which are provided to the financial institutions and typically will cover 50% of the risk of default on loans that are provided on the guarantee. In this way the FI's may lower their requirements for collateral and/or adjust the interest rate;
- Risk Management and Operational Facility, to enable the Fund Manager to undertake due diligence and to provide grant funds to prospective clients (FIs and SMEs) to share the costs of obtaining adequate documentation (for example, energy audits) and of resolving specific issues of capacity that might otherwise prevent them from being creditworthy.

The product mix will change over time and the Fund manager will advise the BoD on the product mix including the possible introduction of other products.

3. Composition of the RDF Board of Directors

The RDF Board of Directors will be made up of Ministry of Finance, Danida and possibly other development partners and qualified but disinterested private bankers and investors.

4. Responsibilities of the RDF Board of Directors

The overall function of the RDF Board of Directors is to ensure that the RDF becomes an efficient and acknowledged instrument for expanding the availability of financing to rural microenterprises and SMEs, especially those engaged in agribusiness and sustainable energy. The specific functions of the RDF Board of Directors are to:

- Establish a detailed policy and plan for the implementation of the RDF, and ensuring that all potential PFIs and target beneficiaries have access to the required information;
- Approve the Operational Manual for the Fund;

- Make decisions on proposed investments and expenditures under the RMOF above thresholds to be specified by the Board;
- Monitor and regularly evaluate the performance of the different products offered by RDF;
- Investigate and act on complaints received from FIs, MSMEs and other stakeholders about the processes of applying for and utilizing products offered by the RDF.

5. Qualifications

Persons nominated to serve on the RDF Board of Directors must have proven commitment, knowledge and experience relevant to finance and rural development.

ANNEX 4: TERMS OF REFERENCE FOR THE RDF FUND MANAGER

Support to Engagement D: The Rural Development Fund of the Danish Support to Private Sector Development, Phase III 2016 – 2020 (SPSD III) Ghana

1. BACKGROUND

The Danish Ministry of Foreign Affairs (Danida) has multiple funds earmarked towards the promotion of sustained rural and agricultural financial services in Ghana. Under the overall goal of promoting private business and green growth, Danida supports financial services as part and parcel of its Support to Private Sector Development Programme, currently in its second phase. SPSD II promotes and contributes to an all-inclusive development of the private sector. The programme aligns closely to government priorities by supporting creation of sustainable and decent jobs and facilitating access to credit to the benefit of micro, small and medium sized enterprises, with special attention to the agricultural sector and rural areas. Particular emphasis is given to increasing levels of capital invested for enhancing productivity per job in Ghana; and broadening access to credit by making funds and guarantees for viable loans more available.

The funds currently offered through Danida's SPSD II include:

1. The Support Programme for Enterprise Empowerment and Development Funding Facility (SPEED) valued at approximately DKK million 25, controlled by a private funds manager (currently under liquidation) for the purpose of promoting working capital loans from RCBs to their clients.
2. The Rural Finance Wholesale Fund (RFWF) funded with DKK million 40 offered through ARB Apex Bank for the purpose of promoting term loans through RCBs to their clients.
3. The Merger Fund (MF) funded with DKK million 15 offered through ARB Apex Bank for the purpose of defraying the costs of undercapitalized RCBs merging to create larger, more sustainable banks.
4. The RCB Capacity Development Fund, established as a Training Seed Fund (TSF) and funded with DKK million 25 offered through ARB Apex Bank for the purpose of subsidizing, on a reducing basis, training to RCBs that were rated as *fair, marginal* or *unsatisfactory*.
5. The Loan Guarantee Facility (LGF) funded with DKK million 60 is a cash-based guarantee used to reduce risk to lenders engaged in agribusiness term finance, predominantly in Northern Ghana. The LGF is currently offered through three lenders.
6. The Sustainable Energy Fund (SEF) is not yet operationalized but is meant to provide support, through participating lenders, to affordable financing to SMEs acquiring capital equipment that provides new energy efficient solutions or adds to existing renewable energy supply.

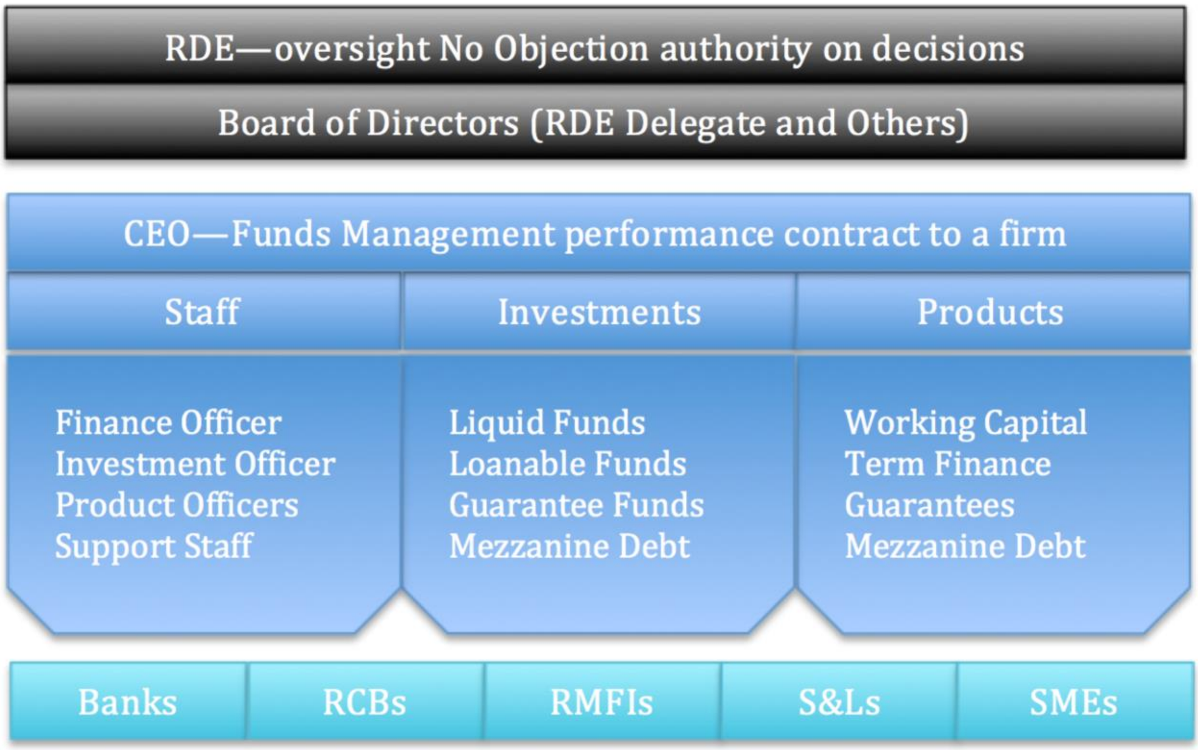
In the planned SPSD III funds may also be earmarked for providing complementary support for skills development. Such funds may be used to assist Small and Medium Enterprises (SMEs) trained by the programme to acquire relevant assets to initiate or scale their businesses.

During SPSD II, given the multiple institutional arrangements, management of the existing funds has been complex. Introduction of new funds would add further complexity. Also, opportunities for using one facility to complement the use of another have been and will continue to be difficult to realize.

Danida remains committed to realizing the intended outcomes of these funds and, in the interest of efficiency, further intends to place all of these funds under contract with a single FM offering a modified suite of products to facilitate broader and deeper impact. A Board of competent Directors, including up to two Directors from or appointed by the Embassy of Denmark (EoD), will supervise the FM. In the case that the FM is a regulated financial institution, the FM will also be custodian of liquid balances. In the case the FM is not a regulated financial institution, the FM will contract with regulated financial institutions for custodial services of liquid balances. The FM contract will be performance based and duly stipulated in the contract

2. APPROACH

The modified suite of products will be established under the management of a single private management firm governed by a Board of Directors. The Board will include up to two Directors appointed by the EoD, other relevant partners and other participants. The EoD will maintain No Objection rights over decisions by the Board for the foreseeable future.



3. Overall

The FM will have an appropriate staff including a CEO, Finance Officer, Investment Officer, Product Officers and Support Staff. The FM will manage and maintain the value of all funds (liquid and invested). Initially, the FM will offer two to three types of products: (i) refinance products, (ii) guarantee products, and (iii) possibly quasi-equity investments. The amount of funds allocated to each product will initially be guided by the on-going implementation of the financial products currently managed by Danida. Moving forward, changes can be recommended by the FM to the Board for consideration, modification and/or approval.

Alternatively, the Board may also request the FM to introduce or modify products in sync with the goals of the fund. Users of the funds will mainly be Ghana's financiers that have a rural focus. Most of Danida's existing funds will be placed under the FM in 2016 whereas in a few cases, existing agreements will first need to expire before the balances committed to the partner in question can be moved into this fund.

The FM is responsible to maintain or increase the value of the funds and to use the funds prudently to achieve the intended outcomes. To this end, the FM will under the overall supervision of the Board: solicit interest in the various facilities; vet candidate beneficiaries and candidate partners; sign agreements with beneficiaries and partners (with Board approval); provide instructions to disburse, invest and recover monies for the funds; monitor all facilities; take responsibility for holding safe the facilities; maintain a qualified staff; prepare regular reports (financial and narrative); undergo an annual third party audit of accounts and provide secretarial services to the Board.

Initially, the contract with the FM will be awarded for a three year period to allow for the establishment of systems and the full launch of operations. Before the end of the 3rd fiscal year, the FM may be contracted for up to two additional years if the performance review after year two is satisfactory and if the Board is satisfied with the FM's performance. As is normal, a qualified third party auditor, approved by the Board, will audit the fund annually. In addition, every two years, the fund will undergo a performance review that charts the FM's performance, the strategy used and the appropriateness of the products offered against the market opportunities and the fund's objectives. The Board may, at its discretion, call for a performance review on annual basis, if warranted.

4. Governance of the Fund

The specific structure of the governance level of the fund will have some impact on the funds management.

16.1.1 Structure of the Board and Product Offerings

The specific plan for populating the Board of Directors is in the process of being finalized. There are effectively three options (presented in order of Danida's preference):

i. Governance of the fund will become the joint responsibility of an existing trust and that trust's board with an additional representative delegated by the EoD, will become the Board of the fund;
ii. Danida will facilitate the establishment of a Board made up of qualified but disinterested private bankers, investors, development partners and delegates from itself and the Ministry of Finance in Ghana. Over the coming five years, this Board will progressively re-engineer its form to become a trust to establish the fund as a long term institution; or
iii. Danida will facilitate the establishment of a Board made up of qualified but disinterested private bankers, investors, development partners and delegates from itself and the Ministry of Finance in Ghana. At the end of five years, this Board will oversee the de-capitalization of the fund by transferring its value on as performance based grants to financial institutions that share Danida's objectives. This will result in the fund's eventual closure.

If Danida with a No Objection from the Ministry of Finance is successful in identifying and agreeing with an existing trust (Option-i), the fund will immediately be positioned to offer the mezzanine debt product (described in more detail below). If Danida adopts Option-ii, the fund *may* offer the mezzanine debt product during the course of the coming five years. If Danida adopts Option-iii, the mezzanine debt product will not be offered by the fund.

5. Liaison with SPSD III

SPSD III is planned to be implemented from 2016-2020. The programme will continue to rely on the existing funds to be placed under the management of the FM (as noted above). The programme is planned to have a specific emphasis on SME skills development and renewable energy. It is likely that financial products (guarantees, refinance facilities, etc.) will be relevant and necessary to support these objectives. As such, the Board of the FM will maintain a regular liaison with SPSD II and then SPSD III. This liaison will include the CEO of the FM attending all SPSD II and III Steering Committee meetings as an observer and the Board Chair of the FM attending all SPSD II and III Programme Steering Committee meetings as a member. Through this liaison, priorities for the fund's investment; decisions to establish new products; and modifications to the fund's products can take consideration of SPSD's priorities.

6. FM Staff Roles

The contracted firm will field a minimum of five professional staff and three support staff. This staff may be augmented given growth in outreach and impact with approval of the Board.

CEO

The CEO of the FM will serve as the Board Secretary and be accountable to the Board for: (i) developing annual targets for each product; (ii) recommending allocations and revisions to allocations from the fund to the various products; (iii) presenting and updating an operational budget (planned versus actual); (iv) regularly reporting the performance of all funds; (v) referring transactions above a stipulated threshold to the Board for approval; (vi) supervising all staff; (vii) ensuring the maintenance of the FM's assets; and (viii) maintaining and distributing the Board minutes. Within the FM, the CEO is responsible for taking responsibility for day-to-day management. This includes supervising staff and assets; maintaining tight focus on the FM's goals and objectives; maintaining a high-energy work place and representing the FM to the public. The CEO is the chairing member of both the Investment Committee and Portfolio Management Committee. Finally, the CEO will participate in the steering committee of SPSD II and III as an observer so that the FM can synchronize its strategy and operations with those of Danida.

Finance Officer

The Finance Officer reports directly to the CEO. The Finance Officer is responsible for the accounting of all funds and is responsible for placement of the FM's funds and assets. The Finance Officer oversees the investment of all liquid funds ensuring that the highest yields at the lowest risks are achieved while also ensuring that the maturities of investments provide adequate liquidity to meet the FM's ongoing obligations for investments in refinance and quasi equity in partners and; to meet liabilities for guarantees. The Finance Officer also works closely with the Investment Officer to project and effectively manage inflows to and outflows from the funds to partnered financial institutions. The Finance Officer maintains the FM's books of account and prepares all standard financial statements on a timely basis. The Finance Officer, the CEO and the Investment Officer comprise the Portfolio Management

Committee that is tasked with ensuring financial performance of the various assets and adequate diversification of risk.

Investment Officer

The Investment Officer reports directly to the CEO and works closely with the Finance Officer to prepare and manage cash flow projections. The Investment Officer is responsible for ensuring turnover of the FM's various products offered to clients through Product Officers. The Investment Officer masters the form and function of each product and monitors the performance of each product. The Investment Officer sets targets and territories for the staff retailing the products and monitors the performance of those staff. The Investment Officer collaborates directly with the CEO to form the Investment Committee of the FM. The Investment Committee reviews applications and appraisals for the products; and approves disbursements to the FM's clients.

Product Officers

Initially, the FM will begin with two Product Officers—these are the FM's professional retail staff. The Product Officers will offer the refinance, guarantee and quasi equity products to the FM's clients. The Product Officers report to the Investment Officer. In their role: they meet potential clients; explain products; generate applications; conduct appraisals; present/defend applications to the Investment Committee; and monitor clients. The FM may choose to separate the roles of these two initial Product Officers on the basis of geographic concentration, product specialization or size of portfolio.

Support Staff

The FM will also employ one Office Assistant to address clerical needs and the reception function and two drivers.

7. Investments

The FM will manage the various products in accordance with Danida's goals as articulated by the Board. There is cross-over between certain investments and product offerings. Mezzanine debt is meant to assist undercapitalized RCBs as a product. However, mezzanine debt is also an investment from the FM and should have performance targets, periodic returns requiring re-investment and, occasional losses. Guarantees are a product offered to SMEs and lenders, but are backed by a fund invested in low risk instruments to prevent loss in value, and earn adequate returns for settling claims, as and when they arise. Loanable funds (as both term finance and working capital finance) are products offered to lenders but the performance, return and tenure of these funds must be managed to maximize return and minimize risk to the FM. Finally, the FM will consistently have liquid funds as loans and mezzanine debt are repaid and this liquidity will need to be invested consistently with Danida's goal. All of this responsibility rests with a Finance Officer under the overall direction of the CEO.

8. Products

Under the overall supervision of the Investment Officer, Product Officers will offer clients of the FM its various products and also based on market dynamics and opportunities suggest and develop new and relevant products for the market. Decisions of what balances to place in which products will be planned on an annual basis and adjusted on a quarterly basis with approval from the Board. The FM does not have a traditional Asset Liability Committee (as there are no meaningful financial liabilities) but has a regular Portfolio Management Committee to ensure financial performance of the various assets and adequate diversification of risk.

9. Working Capital Finance

Background—working capital loans are by far the largest product from RCBs to their rural clients. RCBs are always constrained on the liability side of their balance sheets as client deposits are small, Bank of Ghana reserve requirements are high (47% of deposits) and client saving habits are erratic. Danida funded and participated in the governance of the Support Programme for Enterprise Empowerment and Development Funding Facility (SPEED), which provided working capital finance to RCBs through an independently managed FM. SPEED functioned well but based on a predefined programme, the fund was shut down. The balances from SPEED form core assets of the FM.

Product—risk of working capital loans is less than that of term finance, even at high base rates of interest. The FM will offer revolving facilities to RCBs, Rural Micro Finance Institutions (RMFIs), and S&L Institutions using the same systems employed by SPEED. Borrowing financiers may be assisted to develop more comprehensive financial solutions for their SME borrowers that combine both term finance and working capital.

Management—working capital loans are short-term assets for the FM. Inflows are regular and revolving or investing elsewhere requires careful oversight.

10. Term Finance

Background—through an apex body (Bank), Danida currently offers pre-finance RCBs long-term loans through the RFWF. Term loans are meant to enable rural SMEs to borrow for capital investments and take longer periods of time to repay, thus lowering the periodic payment and enabling the enterprises to scale up business. Qualifying RCBs submit their approved clients' loan requests to the bank for loans between two and five years. The Bank's Credit Committee reviews the requests and based both on the appraisal of the RCB's capacity to borrow and on the appropriateness of the particular loan request—approves, declines and conditionally defers pending clarification. The rollout of the funds has had some performance issues and has been narrowly focused on a few RCBs. Currently, term loans are difficult to make or refinance given high base lending rates in Ghana.

Product—term finance requires quick, careful decisions, monitoring capacity and support to the borrower (in a high interest environment). The FM will initially continue to offer term loans on a case-by-case basis, using a proper credit management procedure. If base lending rates fall (and they should) this product can be marketed more aggressively. As an alternate in the near term to offering term finance, emphasis can be placed on mezzanine debt using the flexibility of the FM to offer various products. In this case, RCBs can borrow the mezzanine facility and use the facility to offer lower priced term finance to rural SMEs; or borrow the term facility and use the LGF to offset the provisioning requirements and default risk; or all three.

Management—the FM will act as the lender to RCBs. As a condition for receiving loans, the FM may couple lending with a requirement that the borrower also undergo comprehensive capacity building, with achievement benchmarks to ensure proper banking practice within the RCB. For the FM, the debt will be treated as a long-term asset. Monthly repayments will augment the cash flow of the fund. Danida and the FM may also consider offering the facility to banks, S&Ls and RMFIs, in addition to RCBs, if these financiers are interested and meet the criteria with respect to leverage and with respect to achieving Danida's stipulated goal.

11. Guarantees

Background—Guarantees are used as collateral enhancement for borrowers. When central banks require lenders to secure low risk loans with collateral, and such collateral is difficult to come by, guarantees are a way to overcome this difficulty. Danida currently provides a 50% cash guarantee for term lending to rural SMEs through banks and S&Ls. The current loan guarantee agreements are ring-fenced mainly to the Northern region.

Products—there are several ways to offer guarantees that encourage lending which are not being used for the existing guarantee fund. Investing cash in commercial banks for guarantees in an economy with extremely high returns on treasury bills and extremely high interest rates leads to a logical (though arguably unethical) preference by the commercial banks to use the liquid funds for their statutory reserves, invest their statutory reserves in treasury bills and not lend (as term finance is risky at such high rates of interest). The case of the S&L is likely different as the amounts loaned are smaller and the asset being term financed is a small part of the borrowing SME's business. Therefore instead of a single guarantee instrument (as is currently offered), the FM offers three types of guarantees: (i) investment backed guarantees; (ii) cash backed guarantees; and (iii) portable guarantees.

Investment Backed Guarantees—the FM will withdraw funds from commercial banks and invest those funds in low risk, high yield investments with various maturities to ensure predictable liquidity. Instead of offering the commercial banks cash in their banks (which they will prefer to use to meet reserves as explained above), the FM will offer the banks a guarantee backed by cash safely invested in Ghana. This fund can be audited by a reputable third party auditor on a quarterly basis. This audit will provide a statement with the value, tenure and risk rating of investments (though not necessarily the names of the investees) to the banks wishing to use the guarantee for provisioning (but disables them from using the guarantee as fungible cash).

Cash Backed Guarantees—in the case of S&Ls and, perhaps other types of rural financial institutions[2], the cash backed guarantee may remain relevant. Again, this is linked to the fact that origination and turnover of term loans to SMEs for small values justifies a cash guarantee as it is easier to manage and the financial institution is using it for the intended purpose.

Cash Backed Guarantees from the Sustainable Energy Fund—as with other cash backed guarantees for term finance, the objective of the SEF is to provide support, through participating lenders, to affordable financing to SMEs acquiring capital equipment that provides new or adds to existing renewable energy supply. The SEF is meant to avoid being overly prescriptive in terms of supporting any given technology over another. Clients of participating lenders may choose their preferred asset, vendor and/or service provider so long as the assets are clearly of high enough quality to merit financing. For approved assets, SEF can provide 50% of the loanable funds to the participating lender to support their financing of the asset. The loanable funds serve a dual purpose: (i) to lower the cost of finance for the lender and borrower, and (ii) to serve as a guarantee to the lender where Danida shares 50% of the risk on the loan.

[2] The FM in with agreement of the Board may offer this product to RMFIs and others if a clear system that ensures the funds are properly utilized can be established.

Portable Guarantees—a strategy employed by USAID and by independent guarantee companies in other markets is a written guarantee to the potential borrower. In this case, an SME could approach the FM with a need, a business concept, etc., and following a low cost evaluation of the SME's idea, assuming it is sound, the FM provides the SME a letter of guarantee for 50% of the loss for any lender in Ghana. The SME may then approach any qualifying financier with the letter of guarantee to secure his/her best offer.

Management—investment backed or cash backed guarantees are easy to manage and are part of the normal workload of the FM staff. Given that guarantees are meant to be collateral enhancement, claims tend to be minimal. Cash flow comes in from fees and investments and occasional pay-out go out. In the case of portable guarantees, the FM must appoint a member of staff to standardize and execute the review of SME business concepts and SME creditworthiness.

12. Mezzanine Debt

Background—the Merger Fund currently operated by the Bank on behalf of Danida has the objective of encouraging small, weak RCBs to merge in order to have larger balance sheets, the minimum equity required by the Bank of Ghana for RCBs and greater outreach to rural clientele. Unfortunately, after several years, only a few mergers have been considered and none have been fully completed. Effectively, the RCBs *don't want to merge.* As the desired outcome of the mergers was meant to be larger, safer, better capitalized RCBs addressing the rural sector, the October 2014 Review of Danida's rural finance activities recommended that the Merger Fund be repurposed to be a Mezzanine Debt fund or a *Capital Investment Fund.* As noted under the Governance of the Fund, if, when and how this product is to be offered is pending decision on the type of governance the FM will have.

Product—mezzanine debt is a long-term liability for the investee but is treated as equity on the investee's balance sheet. Mezzanine debt normally has very liberal repayment terms—the investment comes as a lump sum that is paid back over a long period (perhaps ten years) etc.

Management—the FM will be the investor of mezzanine debt with RCBs (the demand has been established in a separate study). As a condition for receiving this investment, the FM may couple it with a requirement that the investee also undergo comprehensive capacity building, with achievement benchmarks, to ensure proper banking practice within the investee RCB. For the FM, the debt will be treated as a long-term asset. Quarterly or annual coupon payments will augment the cash flow of the fund. Good performance by the investee using mezzanine debt will open further possibilities for the investee to borrow term loans and working capital loans as the investee's leverage will be improved.

13. Qualifications

Funds management in the context of this TOR includes the administrative and operational activities to safely place, manage monitor and recover funds on behalf of Danida and under the oversight of the Board. It does not include physical cash management as such management of physical cash will be handled through conventional banking institutions based on instructions from the FM, approved by the Board to the FM's bankers.

Tenderers must demonstrate that the entity has the appropriately skilled and credentialed human resources and the financial capacity to manage the contract without stress to itself or to Danida[3].

The proposed team shall include the following profiles:

CEO PROFILE:

General qualifications

- An experienced leader and business executive with appropriate industry experience of at least 10+ years of professional operations experience with no less than the last five years in a leadership/management role in a financial institution preferably as a Chief Executive Officer (CEO) or Chief Operations Officer (COO);
- Academic qualification should be, at least, a post graduate degree in economics, banking, finance, business administration or commerce or other appropriate discipline.

Adequacy for the assignment

- Must demonstrate proven competency with tools of fund managements especially in the areas of both lending and loan recoveries, with hands on experience in providing guarantees, working capital finance and term finance. Experience in mezzanine debt finance targeted at financial institutions and SMEs will be an asset;
- Experience in providing leadership and guidance to the team; manage, mentor, and periodically evaluate the performance of the staff in accordance with laid down policies and procedures and international best practices;
- Proven experience with interacting with Boards of Directors, financial management, operations management, human resource management, checks and balances within a financial institution, and in rural and development finance context;
- Proven experience from working with donors/development partners and/or development banks is important;
- Experience with working in microfinance, setting up microfinance programs, risk management experience and established interest, in working for poverty alleviation in a fund management context are highly desirable.

Experience in the region and language

- International exposure plus experience from working in West Africa is essential and experience from Ghana would be a distinct added advantage;
- Fluency in English.

FINANCE OFFICER PROFILE:

General qualifications

- Must have a minimum of 8 years of experience in senior level financial management in a financial institution;
- Academic qualification should be, at least, a post graduate degree in economics, finance, business or other appropriate discipline and must be a chartered accountant.

[3] Tenderers shall have adequate liquidity to easily enable covering all operating costs for a period of six months to enable a normal billing cycle whereby costs are incurred, invoices are submitted, invoices are reviewed and Danida makes payment.

Adequacy for the assignment

- Hands on experience in providing oversight for accounts, ledgers, and reporting systems, ensuring compliance with appropriate Generally Accepted Accounting Principles, regulatory requirements, and budget audit requirements;
- Experience from managing the financial obligation process on a daily basis, which includes creating, modifying and obligating fund accounts and managing cross-product transfers where appropriate;
- Must be practically familiar with concepts of liquidity management, asset-liability management and treasury management, risk analysis and credit decisions. The ideal candidate will be familiar with lending, investing, working capital financing, term financing, guarantees and mezzanine debt financing targeted at financial institutions and SMEs;
- Working knowledge in data report extraction, preparing quarterly reports, and any other financial information and resolve any discrepancies as required;
- Prepare and update Standard Operating Procedures (SOPs), work instructions, lending criteria and related supporting documents in accordance with the FM guidelines;
- Experience from working with donors/development partners and/or development banks is important, is desirable.

Experience in the region and language

- International exposure plus experience in a similar role in a developing country, preferably within Ghana will be an added advantage;
- Fluency in English.

INVESTMENT OFFICER PROFILE:

General qualifications

- Must have a minimum of 5 years of experience in branch level management or product management in a financial institution;
- Academic qualification should be, at least, a post graduate degree in economics, finance, and business or other appropriate discipline, Chartered Institute of Management Accounting (CIMA) or similar qualifications will be an added advantage.

Adequacy for the assignment

- Must be practically familiar with retail finance, managing teams of retail staff, setting and achieving lending targets and credit appraisal and approval;
- Must demonstrate competency with rural finance. The ideal candidate will be familiar with lending, investing and guarantees in rural Ghana;
- Experience from SME financing, value chain financing, access to finance and enterprise development is a distinct added advantage;
- Experience in working with financial institutions to provide technical assistance to SMEs at enterprise level will be an asset.

Experience in the region and language

- Experience in a similar role in a developing country, preferably in Ghana will be an added advantage;
- Fluency in English.

PRODUCT OFFICER PROFILE:

General qualifications

- Must have a minimum of 5 years of experience in retailing financial products, preferably in rural operations;
- Academic qualification should be, at least, a bachelor's degree in economics, finance, business or other appropriate discipline.

Adequacy for the assignment

- Experience from SME financing, value chain financing and access to finance;
- Excellent track record or experience in financial product development and marketing will be an added advantage; Analytical expertise and capacity to appropriately and sufficiently collect, collate and analyse data to inform the right market mix and target;
- Demonstrable institutional capacity and experience in the field of market research within the microfinance/financial sector;
- Experience in cultivating close relationships and network with partners to enhance visibility, access, and influence while developing a broader platform for further pipeline building.

Experience in the region and language

- Experience in a similar role in a developing country, preferably in Ghana will be an added advantage;
- Fluency in English.

14. Budget

The budget should provide a detailed list of human resources, their person month's fees and all benefits. The budget should be prepared on a monthly basis and be projected for 36 months with summary figures by year. For the option within the contract additional 24 months budget should be prepared in like manner. Moreover, the budget should only include actual project related expenses (overhead costs). The evaluation of the financial offer will be based solely on this budget for the human resource items. The overhead costs will be managed directly through the Board overseeing the contracted FM. Overhead costs will only be used to reimburse actual, receipted, approved expenses.

15. Bonus fees

On an annual basis, the Board will approve bonus fees payable to the FM on a product-by-product basis. All fund products managed without loss will attract a bonus fee for the FM of 0.5% of the total committed capital per product per annum. The Board will adjust the bonus fee payable for successful management of products upwards (excluding idle funds) based on its priorities and difficulty of management. The Board may opt to pay up to 4.5% per annum incentive bonus fee to the FM for properly managing any given product.

16. Timing

The tendering process will be concluded by November 2015 and the award made. The winning bidder will be expected to begin operations by 1 December 2015 or soon hereafter.

(The award of contract was given in February 2016)

ANNEX 5: CONSIDERATION ON A MEZZANINE DEBT FACILITY

Mezzanine debt is a long-term liability for the investee but is treated as equity on the investee's balance sheet – hence it represents "quasi-equity." As such, and as agreed with the Bank of Ghana, mezzanine debt can be used to meet minimum capitalization standards. Mezzanine debt has more liberal repayment terms versus term liabilities—the investment comes as a lump sum that is paid back over a long period (5—10 years). Interest is paid quarterly and is accrued if payments are missed. The last payment of interest is accompanied by a single repayment of the full value of the initial investment—giving the investor the full value of the investment in the investee until the last day of the investment. The rate of interest is normally low compared to commercial (even concessional) rates on loans, and thus lowers the cost and risk for RCBs, without violating agreements among development partners to avoid subsidising interest rates on loans.

This product is intended for RCBs in poorer rural areas that are undercapitalized, in order to enhance their ability to leverage additional funds for on-lending and to comply with the Bank of Ghana's (BoG) minimum capital requirement, which is being raised to GHS 500,000 as of 2017 and GHS million 1 as of 2018. To be eligible, RCBs must have paid-up capital in the range of GHS million 150-500, share registers that are up-to-date and at least 95% accurate, and NPL ratios below 10% (or below 20% with a clear strategy for reducing it below 10%). They could take on mezzanine debt up to 100% of their paid-up capital, for a period of 5 to 10 years.

This product would be available to enable the RDF to work with RCBs that have high potential to reach the types of clients targeted by the RDF in order to raise their capacity for on-lending to these clients. It is intended to support the other windows, not to be a stand-alone instrument for recapitalization of RCBs. Even if the partner RCB is not able to reach the full minimum capital of GHS million 1, there is little risk of it being sanctioned (apart from not being allowed to pay dividends) for falling below that mark, as long as it remains solvent. Given the important of RCBs to their communities, BoG has consistently exercised regulatory forbearance with respect to RCBs as long as they remain operational.

This product will depend on having a Trust arrangement in place for the RDF. This is because the repayment period exceeds the five years of SPSD III and because, in the event of failure to meet the repayment terms, the mezzanine debt converts into actual equity, requiring a trustee to act as a shareholder.

Annex 6: Guide to monitoring RDF

Rural Development Fund	
Outcome Indicators	**Specifications and means of verification**
Outcome indicator 1.1: % Increase in value of loans disbursed to MSMEs by FIs through the RDF disaggregated by (i) agriculture/agribusiness; (ii) renewable energy/energy efficiency; (iii) women entrepreneurs, and (iv) others	This indicator refers to the focus of the RDF to make financing available to MSMEs through their financial Institutions and to increase the value of loans disbursed on a year by year comparison. Data will be collected at the point where financial institutions make applications to the RDF on behalf of their clients for funds to be loaned to these clients. As the RDF starts operation, it is expected that the value of loans given out will increase year on year, and that the percentage increase per year will be recorded and disaggregated as such. The value of the loans given per MSME will be disaggregated by the FIs into (i) agriculture/agribusiness; ii) renewable energy/energy efficiency; (iii) women entrepreneurs, and (iv) others
Outcome indicator 1.2: % Increase in number of MSMEs obtaining loans by FIs through the RDF (disaggregated by (i) first time MSME borrowers, (ii) agriculture/agribusiness; iii) renewable energy/energy efficiency, (iv) women entrepreneurs, and (v) others)	This indicator reflects the importance of also monitoring the number of MSMEs that are benefiting from the RDF via FIs. Data will be collected and measured essentially in the same ways as outcome indicator 1. The number of client that access the RDF through the FIs will be disaggregated into (i) agriculture/agribusiness; ii) renewable energy/energy efficiency; (iii) women entrepreneurs, and (iv) others
Outcome indicator 2.1: Establishment and engagement of an institutional structure, suitable for long term sustainable management of the Funds, beyond SPSD III	This indicator helps illustrate the progress made towards finding the right institutional framework for hosting the RDF beyond SPSD III The RDF together with the Embassy with the help of a lawyer will prepare a process action plan to be followed to aid the smooth institutionalisation of the RDF into a Trust, a Financial NGO or similar as the institutional arrangement to provide oversight for the RDF and sustain its operations beyond SPSD III.
Output indicator 1	**Financial institutions apply for lines of credit and refinancing facilities for on-lending to agriculture and rural enterprises**
(a) Number of FIs approved for LoCs and Refinancing (b) Total value of investments financed through RDF for (i) working capital	These indicators provide evidence of the value and volume of the RDFs products that are accessed and utilised by qualified FIs (a) FIs that are approved for LoCs and Refinancing facilities will be numbered and recorded and

and (ii) term loans	disaggregated into funds for agriculture related activities or funds for rural enterprises (the definition for rural enterprises will be agreed at inception). (b) Data will be disaggregated to know how much of borrowings are for working capital or term loans and further disaggregated into how much working capital or term loans are for agriculture related activities and rural enterprises.
Output indicator 2	**Financial institutions introduce energy products and seek funds for on-lending for sustainable energy investments**
(a) % of participating financial institutions offering an energy-specific product; (b) Total value of energy investments financed through RDF for (i) working capital and (ii) term loans.	These indicators provide evidence of FIs involved in and offering energy related financial products. (a) RDF will collect data on the energy related products that FIs which work with the RDF have and record it as a percentage of the total FIs that the RDF work with. (b) Data will be collected on the amount of money that the RDF gives to FIs for these energy related products or investments.
Output indicator 3	**Financial institutions participate in RDF guarantee scheme and MSMEs apply for guarantees for loans to agriculture and rural enterprises**
(a) Number of FIs participating in the RDF guarantee scheme and the total value of the guarantee commitments by FIs; (b) Total number of MSMEs approved for loans under the FI guarantee schemes and the total value of loans approved; (c) Total value of investments (other than energy) guaranteed through RDF for (i) working capital and (ii) term loans.	This indicator provides evidence on the access and uptake of the guarantee schemes. (a) Data will be collected by the RDF on the number of financial institutions that utilise the guarantee schemes of the RDF and also the value of the guarantee scheme. (b) Data will also be collected on the number of MSMEs approved for loans by the FIs utilising the guarantee scheme of the RDF and the value of such loans approved for the SMEs. (c) The RDF will collate information on the total value of investments with the exception of energy related investments guaranteed through the RDF for working capital and term loans.
Output indicator 4	**Financial institutions and SMEs seek guarantees for loans for sustainable energy investments**
(a) Total number of guarantees approved for investments and the value of investments guaranteed through	This indicator provides evidence of the utilisation of the Guarantee facility of the RDF.

RDF for (i) working capital and (ii) term loans for sustainable energy investments	(a) The RDF will collate information on guarantees approved for investments and the value of investments guaranteed through RDF for (i) working capital and (ii) term loans for sustainable energy investments.
Output indicator 5	**Funds for on-lending and guarantees sustained**
(a) Recovery rate of loan funds satisfactory; (b) Real value of RDF Funds maintained (c) Sustainable institutional arrangements arranged for the RDF	These indicators illustrate the capacity of the Fund manager to recover loans and also maintain the value for the funds under management. (a) At least 98% of RDF loan funds recovered from FIs and 95% by FIs from their borrowers. (b) Amount of funds at closing is equivalent to initial amount adjusted for inflation. (c) Exit strategy for Danida and sustainable institutional arrangements proposed by Mid-term Review of programme. The selection of the future Trust, Financial NGO or similar shall be imminent at the time of the Mid-term review for the team to recommend completion of the selection.