

# DEVELOPMENT FINANCE UNIT



---

[www.lndc.org.ls](http://www.lndc.org.ls)





# CONTENT

|                                    |    |
|------------------------------------|----|
| INTRODUCTION                       | 3  |
| COVID-19 RESPONSE PCG (C-PCG)      | 5  |
| QUASI EQUITY                       | 6  |
| PROJECT PREPARATION FACILITY (PPF) | 9  |
| EQUITY FINANCE                     | 11 |

# INTRODUCTION

---

The new LNDC Strategic Plan of 2018-23 instituted the creation of the Development Finance (DF) strategic business unit with the mandate to: “develop a portfolio of financing solutions to support private sector led industrial development and economic diversification. These include the **Equity Finance, Debt finance, Project Preparation Facility, Treasury/Resource mobilization and Credit/Investment Appraisal.**”

The unit was established in 2018 following approval of the new Strategic Plan, and 2019 saw the hiring of a consultant to assist in the design of the three instruments namely, equity fund; quasi equity; and project preparation facility. The work proceeded with a market survey to assess the nature of financing needs faced by large enterprises and SMEs in order to validate the need for the instruments and to inform their design.

The resulting Feasibility Study recommended that LNDC start by restructuring the existing Partial Credit Guarantee (PCG), and setting up the quasi equity and project preparation instruments, and only introduce the equity fund in the second phase of the project. Management plans to introduce other financing instruments such as trade finance instrument, and an instrument which targets small

businesses, whose set up will also be included in the second phase of the project. The second phase which will be started in 2020/21 financial year.

The role of DF is extracted from the LNDC Act No. 20 of 1967 as per the following clauses:

## **Section 5.1 (d):**

- To raise, lend or borrow money;
- To make advances to any company, firm or person;
- To lend and advance money to companies, firms or persons owning or engaging in any business similar to or related to that of the Corporation;
- To guarantee payment of cash or performance of contracts by any such company, firm or person on any terms as maybe agreed upon and

- To issue debentures, bills of exchange and other negotiable or transferrable instruments; and

#### Section 5.1 (e):

- Direct expenditure on or towards the implementation of the project or undertaking or any of the objectives of the project or undertaking;
- Making loans or grants for the purposes of the project or undertaking;
- Investing any moneys belonging to the Corporation in any project, undertaking or enterprise;
- Providing technical, advisory or managerial assistance and services;
- Providing plant or machinery for the purposes of any project, undertaking or enterprise.

This document encompasses the first phase instruments: a **restructured PCG, Quasi Equity and PPF**.



Partnering with:





The PCG instrument was further modified to respond to effects of the Covid-19 pandemic and its key features are:

# COVID-19 RESPONSE

## PARTIAL CREDIT GUARANTEE (C-PCG)

### Instruments supported:

- Term Loans (short, medium & long term)
- Working Capital
- Leasing Finance

Up to 75% guarantee.  
M 8 million maximum guaranteed;  
M 200 000 minimum

Loan Maturity:  
60 months

Monthly repayment and  
ZERO application and guarantee fees.

The Lender is free to accept any collateral including assets to be purchased with the loan proceeds.

**Eligibility:**  
All enterprises operating in all sectors of the economy.  
Excluded activities obtain as per current policy.



## QUASI EQUITY

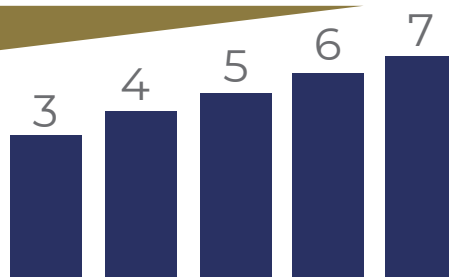
Quasi Equity instrument will provide innovative finance to fast growing local companies which promise high development effects. The product will be offered as a **standardised profit-sharing** arrangement as this set up came highly favoured over other options like junior debt, convertibility or extended maturity for higher premium during the market survey. A broad range of feasibility studies and other activities will be supported, with financial viability undertaken by the LNDC and more specialised work outsourced. Applications will be submitted over the same online platform and LNDC will be required to assess them within 3 to 6 months for speedy delivery. Table 2 summarises the product design.

Standardized profit-sharing product, financed through a Fund; and applications approved by an Independent Investment Committee.

**MAXIMUM LOAN AMOUNT** subject to fund capitalization, at 15% single borrower limit and other considerations

#### MATURITY

3 – 7 Years



**Fixed period interest payments** (prime minus 2%) and **fixed % of firm's future profit (20% royalty on annual profits post 2-year grace period)**

(more expensive than bank loan due to higher risk and zero collateral.

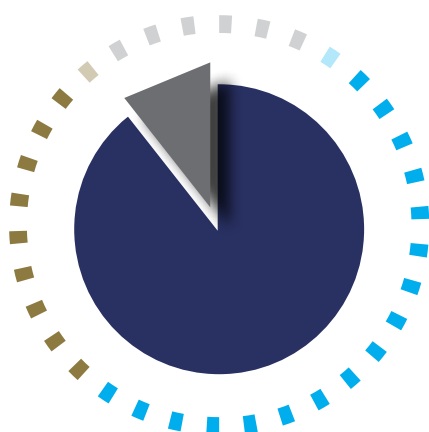
**2.5% application fee** on requested funding).

#### REPAYMENT MODALITIES

- 
- Based on applicant's net profit projections and LNDC risk;
  - **Balloon Payments** or **Cash Flow Sweeps for principal payments**, with 2-year grace period on same.
  - **Quarterly interest payments** (monthly for high risk cases OR matched to specified cashflow period e.g. harvest);
  - **No loss participation.**
- A decorative graphic on the left consists of several concentric, semi-circular arcs in gold and dark blue colors.

# QUASI EQUITY INSTRUMENT

## TOTAL EXPOSURE



- 80% maximum exposure to 3 priority sectors
- 50% agriculture
- 30% manufacturing
- 20% construction/transport
- 20% other (NSDP) sectors.

### Collateral value and type :

Standard practices in the banking business shall apply.

### Application submission

- Online platform
- Loan Origination and Monitoring
- Software used by LNDC.

### Application assessment

Financial due diligence by LNDC and technical outsourced.

### Application approval

By an **Independent Investment Committee** of 5 members: 2 from LNDC and 3 independents (at least one with investment experience).

### Eligibility

- Basotho/ permanent residents owned;
- Fast growing;
- Medium to large firms with **3 years of profit** and **10% growth in annual turnover in last 3 years**, with financial statements;
- Active in **LNDC priority sectors**; Contribute **20% project costs**; **2 personal guarantors**.

### Performance management

- At least 2 transactions a year.



# PROJECT PREPARATION FACILITY (PPF)

The PPF is designed following a trust fund model where Government/ LNDC will contribute funding together with external partners, and the LNDC as the administrator will charge a fee for managing fund contributed by partners. Unless otherwise agreed with funding partners, the PPF funds will be disbursed as a pure grant to eligible projects with expected high development effects, subject to project size, preparation needs and fund capitalisation. Table 3 provides design feature of the product:

Trust Fund like model – LNDC charges admin fee to partner funders; GOL contribution 60%; PPF offered as a grant to finance feasibility assessment/ financial due diligence.

## Grant amount per customer

- Subject to LNDC during the approval phase, availability of funding and agreements with partners.
- Standard projects will involve investments with an average size of M 150,000, while large projects will have an average size of M 1,000,000.

## Pricing

- 2.5% application fee to promoters on requested funding within 3 days of application submission
- 5% admin fee to partners on funding contributions; charged on declining basis.

### Application submission

Online portal.

### Application assessment

- 3 to 6 months, from submission to decision;
- LNDC does basic technical and financial viability assessment complex technical analysis to be outsource through competitive process and paid by PPF.

### Application approval

Independent Investment Committee



### **Eligibility**

- Contribute 20% project costs;
- LNDC/ NSDP II priority sectors;
- 3-year track record; no payment default in 3 years;
- Not engaged in negative activities; etc.

### **Supported activities**

- Pre-feasibility and feasibility studies;
- Financial, technical, environmental feasibility assessments;
- Advisory services etc.

### **Performance management**

- At least 2 transactions a year.
- Plus resource mobilisation targets from year 3.



# EQUITY FINANCE

LNDC also has an equity finance product currently only available to support strategic, NSDP II aligned projects initiated or promoted by the Corporation. The product will be made available to the private sector in due course depending on resource availability. However, private sector entities are free to approach the Corporation with project proposals where they deem fit.





Lesotho National Development Corporation

Block A, Development House

Kingsway Road

Maseru 100, Lesotho

Tel: +266 22 312 012

**info@lndc.org.ls**

**www.lndc.org.ls**



---

DEVELOPMENT **FINANCE** UNIT