DBG will be responsible for the selection of PFIs and monitoring of their ongoing compliance with the eligibility criteria.

PFIs will need to meet the following criteria.

Basic criteria will be applied to pre-qualify FIs and will include the following:

Hold a duly issued and valid license from BoG to carry on business as a bank, SDI, or other credit provider and be in operation for at least three years;

PFI should be largely compliant with applicable prudential regulations, directives, and guidelines of BoG, including but not limited to those for:

(a) paid up capital;
(b) capital adequacy requirements;
(c) loan classification and provisioning;
(d) financial performance; and
(e) anti-money laundering;

Minimum paid up capital prescribed by BoG.

Currently, at least GHS 400 million for banks, GHS 15 million for Savings and Loans and Finance Houses, GHS 2 million for Microfinance Companies and Micro-Credit Companies, GHS 1 million for Rural and Community Banks, and GHS 0.3 million for financial non-governmental organizations . Each PFI must meet the minimum paid up capital throughout its relationship with DBG;

Minimum CAR/gearing ratio prescribed by BoG.

Currently, at least 11.5.% for banks and 10% for SDIs. Each PFI must meet the minimum CAR/leverage ratio throughout its relationship with DBG;

Maximum NPL Ratio: 10% of gross loans for banks and SDIs; NPL as defined by BoG.

Audited financial statements and unqualified audit opinion.

The FIs should have audited financial statements for the last three years; the latest audit opinion should be unqualified;

Minimum profitability.

The FI must have been profitable for at least two of the last three years of audited financial statements.

Pre-qualified FIs will have to meet the following additional criteria, to be assessed during the detailed appraisal:

Demonstrated commitment to lend to MSMEs and Small Corporates.

Each PFI must have:
(a) lending policies and/or strategy related to the DBG target sectors (e.g., MSMEs and Small Corporates),
(b) a track record of performance on relevant target sector (e.g., credit to MSMEs and small corporates as share of total credit; credit to women-owned or led MSMEs as share of total credit).

Stable sources of funding and adequate liquidity.

Each PFI must have stable sources of funding and adequate liquidity to leverage and complement DBG's funding to increase lending to MSMEs and Small Corporates. In addition, PFIs must demonstrate capacity to repay DBG's financing under different scenarios.

Strong corporate governance, including qualified management.
Each FI has to demonstrate compliance with BoG's Directives for corporate governance of banks and SDIs, which includes

(a) corporate governance structures that promote effective identification, monitoring, and management of all material business risks;
(b) systems for ensuring compliance with all statutory and regulatory requirements;
(c) implementation of financial disclosure requirements for market participants and observers; and
(d) setting of corporate governance objectives, strategies, and techniques. The FI should have qualified shareholders and Board of Directors, comprised of qualified persons of proven integrity and knowledgeable in business and financial matters, in accordance with the applicable regulatory guidelines on fit and proper persons. Moreover, the FI should have qualified and experienced management, as well as adequate organization and institutional capacity for its specific risk profile.

Business practices and operational capacity.
FIs should have adequate and sound policies in place, including

(i) a credit policy,
(ii) risk management policies,
(iii) investment policy,
(iv) loan collection,
(v) business continuity, among others necessary to ensure sound business practices.

Policies, administrative structures, and business procedures need to be assessed to ensure that the FI is run efficiently and transparently such that it can operate sustainably in the market and that it has appropriate prudential policies and administrative structures in place to support the requirements of lending using DBG's line of credit or credit guarantees. The FIs' policies, structure and procedures should pay attention to appraisal of sub- loans (to end borrowers) and to supervision (including early warning systems and capacity for remedial measures). Transparency of policies and procedures is greatly enhanced by the existence of comprehensive manuals and appropriate operational capacity, including staffing to mobilize domestic resources, reach out to final beneficiaries, and carry out sub-loan appraisals.

Loan appraisal, supervision, and collection.
FIs should have proven capacity (policies, processes, tools, track record) to appraise working capital and investment loans in areas of DBG's focus, namely agribusiness, manufacturing, and high value services. In addition, FIs should have adequate loan supervision and collections systems as evidenced by their existing tools, resources, and the overall quality of their portfolios. Where applicable, the various roles should be segregated to reduce conflicts of interest. Moreover, provisions should be adequate to cover a significant portion of non-performing loans.

Financial management systems.
Each FI should have in place adequate fund flows arrangements, financial management resources and staffing, accounting policies and procedures; it should also have systems to conduct, maintain and enforce adequate internal audits and controls for its specific risk profile; and have controls including segregation of duties, internal audit and safeguards over assets, external audit arrangements, and reporting and monitoring systems. The FI's financial statements and disclosures should be comprehensive and comply with all the applicable financial reporting standards including BoG's Guide for Financial Publication for Banks & BoG Licensed Financial Institutions, 2017. The systems should enable the FI, if selected as PFI, to accurate and timely report to the DBG.

Risk management system.
Each FI must have demonstrated capability for proper risk management with adequate processes and/or procedures (e.g., credit risk manual) that cover the necessary risks, including credit risk, market risk, and operational risk. The FI should have the control structure and capacity to systematically evaluate and/or conduct credit risk appraisal, asset-liability management, internal control, and compliance, as well as market risks (e.g., interest rate risk and foreign exchange risk).

Environmental and social management systems.
Each FI must have environmental and social policies, procedures, and systems to identify and manage environmental and social risks in line with the environmental and social standards and requirements of the DBG, which are in line with those of the European Investment Bank, KfW, and World Bank.

Money Laundering and Terrorism Financing.
In addition to not being blacklisted for the violation of AML/CFT requirements, each FI must have in place adequate procedures for Anti- Money Laundering (AML) and Counter Financing Terrorism (CFT) in line with BoG requirements. In addition, it should not exhibit severe AML/CFT weaknesses that would pose risks to DBG.

Management Information Systems.
The FI must maintain a management information system that can provide loan-level quarterly reports on client category, sub loan disbursements, repayment performance, pricing, gender disaggregated data, and other subproject and sub-borrower information. These systems should allow the FI, once qualified as PFI, to report to DBG on the use and impact of DBG financing.

Consumer Protection.
Comply with all existing applicable laws and regulations on consumer protection, including measures to review each customer's ability to repay before entering the lending agreement.

PFIs will be required to maintain compliance with eligibility criteria throughout the duration of their financing agreement with DBG. For example, if a PFI falls into a state of non-compliance and remains so persistently, its eligibility to receive further disbursements from the project would, after an appropriate notice, be suspended. The PFIs's eligibility would be restored when it provides concrete evidence of its compliance with the criteria. The DBG will put in place appropriate mechanisms to monitor PFI's compliance with the eligibility criteria. Additionally, PFIs whose performance in relation to eligibility criteria has been unsatisfactory for an extended period will be required to take substantial corrective measures and demonstrate improvements before they are permitted to participate as PFIs again.

PFIs that do not fully comply with all the additional criteria can be allowed to participate in the financial intermediary financing on an exceptional basis, provided they agree to an institutional development plan. The level of access to financial intermediary financing funds is linked to achieving the performance targets stated in the institutional development plan. The institutional development plan should state clearly the strengths and weaknesses of the PFI vis-à-vis the eligibility criteria and include an action plan with time-bound monitorable performance indicators. It should also provide for a mid-term review of progress. Continued eligibility of the PFI would depend on its satisfactory compliance with the agreed institutional development plan. If the progress remains unsatisfactory, the PFI's eligibility should be suspended. The size and complexity of the financing will be commensurate with the PFI's capacity.

Some issues to be considered when admitting PFIs that agree to implementing institutional development plans include:

(i) realistic assessment of the capacity and commitment of such PFIs' managers to successfully implement the plan;

(ii) establishment of clear performance targets (especially on cost recovery and loan recovery), systems to monitor the achievement of such targets at least semi-annually; and

(iii) financing conditions in the Master Credit Agreement should provide for cutting off funding to PFIs that do not meet targets.

As discussed below, PFIs may receive technical assistance under the project to implement institutional development plans. The TA will only address shortcomings identified during the assessment of the additional eligibility criteria; it will not be provided to help FIs meet the basic eligibility criteria.

Process of Selecting PFIs

A 3-stage selection process will be used to qualify PFIs:

1. Financial Institution (FI) Application

The objective of this stage is to register FI's interest to undergo the assessment process and collect the information required by the DBG to determine if a FI meets the basic eligibility criteria.

The FI will submit applications through whatever method indicated by the DBG. In the future, DBG is expected to establish a dedicated PFI Application Portal.

As part of the application, the FI would provide basic information including general corporate data such as registration, license details, ownership structure (including details of significant owners holding more than 5 percent of the shares), location, board of directors and key management staff and audited financial statements for the last 3 years, ESG profile and reporting, strategic fit with DBG objectives, demonstrated commitment to financing MSMEs and the target sectors of DBG. Additionally, the FI will be required to submit a copy of their latest examination report by the BoG.

At the application stage, the FI and the DBG will sign a non-disclosure agreement to safeguard the integrity of the information and conversations during the qualification process.

2. Pre-qualification of PFIs based on basic eligibility criteria

The objective of this stage is to assess the FI's compliance with basic eligibility criteria and determine if it qualifies for detailed appraisal.

The DBG will review the information submitted by the FI to determine if the meets the basic criteria above.

To demonstrate overall compliance with applicable prudential regulations, FIs will be required to have a satisfactory composite rating of 3, as assigned by BoG in the examination report.

Based on all the information received, DBG staff will prepare a pre-qualification report on FIs that meet the basic eligibility criteria (including a minimum composite rating of 3 as assigned by BoG)

The report should cover key aspects of the basic eligibility criteria to support the recommendation on whether or not the detailed appraisal of the FI should be carried out. The report should also include a background of the FI and MSME lending capability.

If the recommendation to proceed to detailed appraisal is approved, DBG will complete a detailed appraisal of the FI.