Inclusive Growth Facility (IGF)

Concept Note – Cabinet Information Paper

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1. Purpose and Strategic Context

This paper is submitted to inform Cabinet on the establishment and operationalization of the Inclusive Growth Facility (IGF) — a national blended-finance and institutional guarantee mechanism designed to enhance access to finance for micro, small, and medium enterprises (MSMEs), with a minimum of 70 % of the portfolio dedicated to youth- and women-led enterprises.

The IGF is a strategic intervention by Government to catalyse private-sector-led growth, generate employment, and strengthen Lesotho's financial inclusion ecosystem. It aligns with:

- NSDP II – Pillar II: Private-sector-led job creation;
- Vision 2050: Building an inclusive and resilient economy;
- Youth Employment and Empowerment Strategy (YEES); and
- Mission 300: Universal energy-access initiative.

The Facility, capitalised at LSL 400 million, is implemented by the MoFDP in partnership with local Development Finance Institutions (DFIs) and commercial banks, using Credit Guarantee Facilities to de-risk MSME lending at the institutional level.

2. Problem Statement

Access to finance remains a critical constraint on MSME growth and formalisation in Lesotho.

- Only 7 % of MSMEs have ever accessed formal bank credit.
- Collateral requirements and risk aversion among banks limit lending.
- Youth unemployment remains high at approximately 24 %.
- The Partial Credit Guarantee Scheme has been under-utilised and overly client-specific

The IGF responds to these challenges through institution-level Credit Guarantee Facilities combined with technical and business-development support for MSMEs.

3. Facility Design and Structure

Element	Description
Facility Size	LSL 400 million (Government capitalisation)
Capital Mix	Public capital deployed through a Grant Deposit Window (PostBank) and a Guarantee Window (FNB).
Delivery Model	Dual-window model comprising: • Grant Deposit Lending (PostBank) for concessional MSME credit • Guarantee-Backed Lending (FNB) providing risk-sharing cover to expand MSME lending
Financial Instrument	• Grant Deposit – enabling PostBank to extend development-priced lending • Guarantee Facility – structured to absorb a share of losses and catalyse broader MSME lending through FNB
Target Sectors	Agribusiness, light manufacturing, renewable energy, textile value chains, and digital/creative industries

Governance	Multi-stakeholder Advisory Committee, IGF Board, and independent Investment Committee; transition to an autonomous Facility Manager within 3–5 years
Technical Assistance	Embedded enterprise-development services, ESG compliance support, digital-business enablement, and post-lending mentorship via DFIs (LNDC, BEDCO, innovation hubs)

PostBank Window:

Government provides a Grant Deposit of LSL 300 million to enable concessional MSME lending under a development-aligned pricing structure.

FNB Lesotho Window:

Government establishes a Guarantee of LSL 100 million, enabling FNB to lend from its own balance sheet under a risk-sharing arrangement supported by the Guarantee.

Financial Instruments:

- Grant Deposit Lending (PostBank)
- Guarantee-Backed Lending (FNB)

4. Value Chain and Implementation Model

The IGF operational model integrates enterprise incubation, investment-readiness preparation, bank credit assessment, Government oversight through an Investment/Credit Committee, and ongoing post-lending enterprise support. The value chain ensures that MSMEs are fully prepared before entering the credit system and remain supported after receiving financing.

4.1 Stage 1 – Upstream: Enterprise Preparation

The value chain begins with enterprise-support institutions including LNDC, BEDCO, incubation centres, and innovation hubs, which provide:

- MSME identification and pipeline development;
- Investment-readiness support, including business-development training and financial literacy;
- Development of business plans, financial projections, market strategies, and ESG alignment;
- Preliminary viability assessments and compliance guidance;
- Submission of investment-ready MSMEs to participating banks.

This upstream preparation ensures that banks receive well-prepared, viable credit applications.

4.2 Stage 2 – Intermediation: Credit Assessment and Government Review

A. Bank Credit Assessment

Partner banks (Lesotho PostBank and FNB Lesotho) apply full credit processes, including:

- KYC and AML compliance;
- Credit scoring and cash-flow analysis;
- Risk-based pricing within IGF-approved parameters;
- Internal Credit Committee consideration and approval;
- Portfolio categorisation aligned with IFRS 9.

B. MoFDP Investment/Credit Committee Review

Once the bank has completed its assessment:

- The application is forwarded to the MoFDP Investment/Credit Committee;
- The Committee reviews alignment with IGF objectives (youth/women inclusion, sectoral relevance, ESG compliance, job-creation potential);
- The Committee confirms eligibility under either the Grant Deposit Window (PostBank) or the Guarantee Window (FNB);
- The Committee approves the application or returns it to the bank for refinement.

4.3 Stage 3 – Disbursement and Post-Lending Support

Once approved:

- Lesotho PostBank disburses directly from the Government Grant Deposit;
- FNB disburses from its own balance sheet, supported by the Government Guarantee;
- DFIs (LNDC, BEDCO, incubators) continue to provide post-lending mentorship, including:
    - business coaching,
    - market access support,
    - operational guidance, and
    - early-warning monitoring.

This integrated, end-to-end model strengthens MSME repayment capacity, reduces defaults, and enhances sustainability.

The IGF's value chain begins with local Development Finance Institutions (DFIs) — namely the Lesotho National Development Corporation (LNDC), the Basotho Enterprise Development Corporation (BEDCO), and recognised innovation hubs that act as enterprise incubators and accelerators.

5. Expected Outcomes

The IGF is projected to create or sustain 25,000 jobs between 2025 and 2028, driven by expanded MSME access to finance, strengthened enterprise development support, and improved credit-risk management across the financial sector.

Based on the adjusted implementation calendar, approximately 3,470 jobs will be created during the remaining five months of FY2025/26 (November 2025 – March 2026) as the PostBank Grant Deposit Window and the FNB Guarantee Window commence disbursements. The remaining ~21,530 jobs will be created across FY2026/27 and FY2027/28 as the IGF reaches full operational scale.

Additional expected outcomes include:

- Portfolio allocation of at least 70% to youth- and women-led enterprises;
- At least 20% green or climate-smart investments;
- Strengthening of credit-risk frameworks across participating banks;
- Improved MSME graduation rates due to integrated post-lending support.

6. Strategic Rationale

- The Credit Guarantee Facility at institutional level rapidly expands credit flow.
- It bridges the "missing-middle" gap between microfinance and corporate finance.
- It crowds in private capital through a first-loss risk-sharing structure.
- It integrates financing with enterprise-support mechanisms for sustainable impact.
- It complements ongoing national reforms under the CAFI Project, LNDC restructuring, and BEDCO acceleration programmes.

7. Macroeconomic and Financial Context

Indicator	Status (2024/25)
GDP Growth	4.2 % (construction and services-led recovery)
Public Debt	≈ 59 % of GDP – stable trend
Fiscal Balance	Strengthened by SACU-revenue rebound
Currency	Loti depreciation (~30 %) aligned with rand
Banking Sector	Concentrated, risk-averse; MSME credit penetration ≈ 7 %; mobile-money usage > 66 %

The IGF thus arrives at an opportune time to deepen financial inclusion and diversify the economy.

8. Investment and Impact Strategy

- Ticket Size: Up to LSL 2 million per enterprise.
- Portfolio Mix: 70 % youth/women-led MSMEs; 30 % other productive sectors.
- Monitoring: SDG-aligned (IRIS+) indicators covering finance mobilised, jobs created, gender/youth inclusion, and ESG performance.

9. Risk Management Framework

The IGF employs a robust risk-management structure integrating Government oversight and established bank credit processes.

A. Institutional-Level Risk Sharing

- Guarantees issued under the Credit Guarantee Facility provide portfolio-based coverage to partner banks and DFIs.
- Risk diversification reduces exposure to individual borrower defaults.
- Participating institutions retain partial risk, ensuring prudent lending discipline.

B. Standard Credit-Process Controls

- KYC/AML compliance under Central Bank standards.
- Credit appraisal and committee approval for all MSME loans.
- Collateral-substitution mechanisms using guarantee coverage in lieu of traditional security.
- Loan classification and provisioning in line with IFRS 9 and prudential guidelines.

C. Operational and Governance Controls

- Independent audits of guarantee portfolios.
- Digital tracking of loan performance and guarantee utilisation.
- Periodic portfolio-risk assessments and reporting to MoFDP.

D. Technical and Capacity Risks

- Ongoing staff training at banks and DFIs on MSME-lending methodologies.
- Post-lending enterprise mentorship by BEDCO and LNDC to reduce default rates.

This framework ensures transparency, accountability, and portfolio soundness across the entire IGF ecosystem.

10. Pricing and Return Policy

The IGF adopts a dual-window pricing system aligned with the nature of Government support:

1. a Grant Deposit Window for PostBank, and
2. a Guarantee Window for FNB.

10.1 Lesotho PostBank – Grant Deposit Concessionary Window

Under the LSL 300 million Government Grant Deposit, Lesotho PostBank shall lend to MSMEs using a developmental pricing structure designed to maximise affordability while maintaining capital preservation.

The pricing parameters are:

- Prime +1%, with a permissible risk-adjusted range of Prime +1% to Prime +10%;
- The Government Grant Deposit earns a 1–2% administrative return, strictly for preservation of capital value;
- Any surplus proceeds generated beyond administrative and operational costs shall be retained by PostBank as a ring-fenced MSME Risk-Reserve Buffer;
- The pricing structure ensures affordability for youth- and women-led enterprises and is distinct from conventional commercial SME products.

10.2 FNB Lesotho – Commercial Pricing under Government Guarantee

Under the Guarantee Window, FNB lends using its own balance sheet, supported by a Government Guarantee that absorbs a defined share of first-loss risk. Pricing must reflect the reduced risk exposure.

The parameters are:

- FNB may apply commercial, market-aligned interest rates, provided they comply with fair-lending standards;
- Pricing must reflect the risk reduction created by the Government Guarantee and shall not mirror fully unsecured SME pricing;
- No punitive or opportunistic risk premiums may be applied to IGF-supported MSMEs;
- No guarantee fees may be charged to MSMEs;
- FNB shall provide quarterly pricing disclosures to MoFDP for transparency and oversight.

11. Financial Structure and Sustainability

Component	Share	Value (LSL)
PostBank Grant Deposit Window	75%	300 million
FNB Guarantee Window	25%	100 million
Total Facility Capitalisation	100%	400 million

The IGF's total capitalisation of LSL 400 million is allocated as a 75% Grant Deposit Window for Lesotho PostBank and a 25% Guarantee Window for FNB Lesotho, ensuring a balanced approach between concessional lending and risk-shared commercial lending.

Implementation Phases:

- Phase I (2025–2027): Pilot Credit Guarantee Facility with PostBank, FNB, LNDC, BEDCO, and innovation hubs.
- Phase II (2027–2028): Expansion and crowd-in of additional local financial partners.
- Phase III (Post-2028): Transition to an independent Facility Manager operating an evergreen, revolving guarantee fund.

12. Institutional Arrangements

- Sponsor: Ministry of Finance and Development Planning (MoFDP).
- Core Partners: LNDC, BEDCO, Lesotho PostBank, FNB Lesotho, innovation hubs.
- Regulatory Partners: Central Bank of Lesotho, Ministry of Trade and Industry.
- Guarantee Model: Institution-level Credit Guarantee Facility covering MSME portfolios.
- Readiness: Governance charter and MoUs with partner institutions finalised.

13. Conclusion

The Inclusive Growth Facility, anchored on Credit Guarantee Facilities with local DFIs and banks, represents a transformative mechanism for expanding MSME finance in Lesotho.

By combining institutional-level de-risking with enterprise-development support, the Facility will empower youth and women entrepreneurs, strengthen local value chains, and drive inclusive, sustainable economic growth.