

Request for Proposal

Product Development and Pilot Program

1.0 BACKGROUND OF MISFA

The Microfinance Investment Support Facility for Afghanistan (MISFA) was set up in 2003 at the invitation of the Afghan government to get donor coordination right from the start and avoid the counter-productive efforts that have emerged from conflicting donor objectives in other post-conflict situations. It was established as a vehicle through which the Afghan Government and international donors could channel technical assistance and funding to build Afghanistan's microfinance sector. MISFA was the first facility of its kind, pooling diverse donor funding mechanisms and converting them into streamlined, flexible support to microfinance institutions in Afghanistan, tailored to local priorities and accompanied by technical assistance and strong performance monitoring.

MISFA's mission is to contribute to Afghanistan's economic growth by developing a viable, inclusive financial sector for the poor, and the underserved small and medium enterprises (SME).

2.0 ACCESS TO FINANCE PROJECT

The Islamic Republic of Afghanistan received a grant from the International Development Association (IDA) to implement the Access to Finance Project. The objective of the project is to build the institutional capacity of the financial sector to improve access to credit by micro, small, and medium enterprises. The project has two components: Component One – Improving Access to Financial Services for Micro and Small Enterprises; and Component Two – Improving Access to Financial Services for Small and Medium Enterprises (SMEs).

MISFA is responsible for the implementation of component one. Under this component, MISFA intends to apply part of the grant proceeds towards the "Capacity Building Fund" sub-component, which supports MISFA to provide support to its partner MFIs to further develop their capacities, in terms of new innovation, and also strengthening the existing systems.

3.0 CHALLENGES IN AFGHANISTAN

Despite the stable and promising growth of the microfinance sector in the last decade in Afghanistan, there are still areas or groups where microfinance has not been quite successful. Due to the cultural sensitiveness, insecure environments and provincial differences, some areas have remained grey, and microfinance was not being able to reach deep into those areas even after many efforts, mostly funded by international development organizations. These groups face a number of difficulties in establishing and maintaining businesses or any other income-generating activities. This is due to various factors such as the enabling environment, the choice of business types and sectors, information gaps, access to markets, access to appropriate training with practical links to markets, lack of

access to finance, lack of contacts and networking, cultural issues, gender discrimination and stereotypes, difficulties in reconciling business and family obligations, differences in the way women and men approach entrepreneurship, etc.

In order to break the shackle, MISFA has planned to provide support to the partner MFIs to work on those left-out areas or groups, and identify strategies to expand outreach and promote financial inclusion. MISFA has identified three major areas where microfinance outreach has not been adequate to make a significant impact. They are:

3.1 Women Entrepreneurship

The contribution of women entrepreneurs to economic activity and employment has increased over time. Women entrepreneurs and their businesses is a rapidly growing segment of the business population and the creative and entrepreneurial potential of women is a latent source of economic growth. Nevertheless, despite an increasing trend, the percentage of female entrepreneurs still remains low, both in relation to that of male entrepreneurs and to that of women in the working age population.

3.2 Youth Entrepreneurship

Youth in Afghanistan face critical challenges to their development and well-being. With 63% of the population below the age of 25 and a growth rate estimated to see the population almost triple by 2050, Afghanistan, one of the world's least developed countries is under pressure to find solutions to meet youth needs and demands. The already bleak statistics around poverty (36% under the poverty line; 33% food poverty) and unemployment (estimated to be 35%) are not likely to improve as more young people enter the job market unless the government manages to take urgent and targeted action to create opportunities to unlock their full potential in national development.

3.3 Agricultural Entrepreneurship

Although less than 13 percent of the Afghanistan's land is arable, agriculture is the largest source of income within the country's economy. At least 75 percent of Afghans rely in part on the agricultural sector for their livelihoods. The importance of agriculture and the agricultural supply chain cannot be understated as a determining factor in the long-term economic stability of the country. Given its size, the sector offers a number of opportunities for sustainable and profitable investment and expansion. However, even with improved domestic production, the growth of Afghan agricultural products in the global economy is getting hampered due to lack of financial access, lack of advanced farming knowledge, absence of appropriate value chains, etc.

4.0 PURPOSE AND OBJECTIVE OF THE REQUEST FOR PROPOSAL

The purpose of this request for proposal is to support eligible microfinance institutions (MFIs) or other financial service providers to undertake a thorough and detailed market research to identify financial product/s that are suitable for the above-mentioned three market segments, and also designing a pilot program to test the products. The objective is

to develop replicable financial product/s and services, and delivery methods in order to increase access to financial services to the women, youth and agricultural farmers. The new product/s and delivery channels will be piloted before they are replicated by other service providers. Eligible institutions to implement this activity will be encouraged to identify market-driven partnerships for provision of complementary non-financial services that support development of women, youth and agricultural entrepreneurs.

5.0 ELIGIBLE INSTITUTIONS FOR THE INITIATIVE

For the implementation of this initiative, MISFA requires financial institutions with in-depth knowledge and considerable working experience in the microfinance and small and medium enterprise (SME) sectors in Afghanistan. This includes MFIs and also commercial banks that have microfinance and SME windows.

MISFA encourages eligible institutions to apply for **any one** of the market segments mentioned above (i.e. youth/women/agriculture). Due to the broad range of activities required to be performed under the initiative, the eligible institutions can also form joint ventures and apply for any one of the market segments. MISFA would also encourage that the eligible institutions form a working group and decide which market segment they prefer to implement.

In order to achieve the aforementioned objective, the eligible institutions will be required to hire a consulting firm to support the implementation of the initiative. The selected consulting firm will be expected to work on these broad categories of the activities:

- Undertake the market research
- Develop appropriate product/s and services
- Develop training manuals and provide training to the staffs
- Design the pilot phase and initiate it
- Provide support during the pilot phase
- Analyze the performance of the pilot phase through appropriate tools and make changes wherever required
- Provide recommendations for scale-up

Eligibility Criteria:

The following eligibility criteria will be used for reviewing proposals under this solicitation:

1. The applicants must be microfinance institutions, deposit taking microfinance institutions, community saving groups/community saving promotion institutions or commercial banks registered under the laws of the Islamic Republic of Afghanistan.
2. The commercial banks must be operating in, or planning for the microfinance or SME activities.
3. Other institutions registered in Afghanistan, providing services that contribute to achievement of financial inclusion.
4. In compliance with the laws/regulations of the Islamic Republic of Afghanistan, the Institutions' overarching goals and/or proposed activity/s should have linkages with the overall objectives of the Access to Finance Project and MISFA.

5. Institutions shall not be engaged in illegal or illicit activities, including money-laundering or other criminal activity.
6. Institutions shall demonstrate positive trends towards operational self-sufficiency; or demonstrate an adequate sustainability plan for their core business.
7. Any applicant institution can apply for only one of these initiatives.
8. The applicants shall submit a detailed work plan.
9. Less operational cost would be an advantage for such selection.
10. The proposal should include clear objectives and outcomes of the initiatives that are measureable and realistic
11. Implementation mechanism should be clearly outlined, how the proposed initiative(s) will be implemented,

6.0 CONTENTS OF THE PROPOSAL

Eligible institutions are required to develop a detailed proposal that includes the following elements:

- Detailed introduction describing the initiative
- Identify key challenges
- Identify the market potential for the initiative
- Identify the key research questions
- A detailed Terms of Reference for the consulting firm
- Previous experience of the institution in piloting new products
- Criteria for selection of the consultancy firm¹
- Deliverables of the assignment
- A detailed work-plan with explanations
- Sustainability plan of the assignment after pilot

The eligible institutions should provide a detailed budget with adequate explanatory notes of the proposed cost elements. The budget **should not exceed USD 500,000**. In order to create ownership of the projects, eligible institutions are required to provide monetary contribution to the initiative from their own resources. The minimum contribution required is five percent of the total funding requested under the Access to Finance project. This should be shown clearly in the budget plan for the initiative.

7.0 SUBMISSION OF THE PROPOSAL

The eligible institutions must submit their proposals within 15 days from the date of announcement of the RFP, i.e. November 21, 2018, to the email address below:

khalid.abid@misfa.org.af copying to: zack.ratemo@misfa.org.af

¹ The procurement process needs to be according to the World Bank Guidelines.