

Short-term Technical Assistance

Terms of Reference / Scope of Work

Date: October 22, 2026

Project	Due Diligence of Islamic Bank of Afghanistan	
Start Date	Expected start of the project November 16, 2026	
End Date	December 26, 2026, or the final acceptance of the final deliverable to be provided hereunder, whatever occurs later.	
Reports to	Name - Title:	Detulio Fumo – Guarantee Business Sales Manager
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Contract Type	Lump sum as per the acceptance of the achieved deliverables	
Review Committee to Monitor Consultants' Work	Detulio Fumo, Guarantee Business Sales Manager ACGF Board of Directors, ACGF Compliance Officer	

1. Background

1.1. Institutional Background

The ACGF Foundation ("**ACGF**") was established in September 2014 by the German Federal Ministry for Economic Cooperation and Development ("**BMZ**") and DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH ("**DEG**") with approval and support from the Government of the Islamic Republic of Afghanistan and from the Central Bank of Afghanistan as well as from the Governments of both the United States of America and the Federal Republic of Germany.

ACGF provides partial guarantees to Afghan partner financial institutions ("**PIs**") which provide financings to local micro, small, and medium enterprises ("**MSMEs**"). It also provides technical assistance ("**TA**") to Afghan financial and other institutions. ACGF is supported by its 100 percent subsidiary SME Client Support Afghanistan LLC ("**SCSA**"), a Kabul-based financial consulting company focused on providing ancillary services to ACGF in the areas of credit guarantee business including TA for Afghan PIs on behalf of ACGF.

ACGF's mandate is to contribute to strengthening the emerging financial sector and to developing private-sector capacity in Afghanistan, thus, supporting the creation of employment and income. ACGF facilitates access to finance for Afghan MSMEs. ACGF's objectives are achieved mainly by



sharing credit risk with the Afghan PIs by providing credit guarantees for MSMEs and by providing comprehensive TA (training, coaching, product development, risk management improvements, etc.).

The Management Board of the Islamic Bank of Afghanistan (“**IBA**”) approached ACGF in May 2025, expressing its interest in becoming one of ACGF’s Partner Institutions (“**PIs**”). The Islamic Bank of Afghanistan is a wholly owned subsidiary of Azizi Bank. The Islamic Bank of Afghanistan was licensed by Da Afghanistan Bank (“**DAB**”) to conduct Islamic banking activities. DAB initially granted approval for Islamic banking operations in January 2016. From April 1 to April 8, 2018, the bank underwent a conversion process, after which DAB issued a full-fledged Islamic banking license on April 9, 2018.

In order to respond to IBA request, ACGF requires to conduct a due diligence of the institution. The due diligence will focus on the general institutional strength, on an operational review of the existing and future business models of IBA and of the existing credit operations and scalability for MSME lending as well as on identifying the main technical assistance needs in this context. The consultant is not expected to travel to Afghanistan. Any field or operational support on the ground will be provided by SCSA.

2. The Assignment

2.1. Objectives

The objective is to conduct due diligence and assessment on IBA which is essential for ACGF’s stakeholders to understand the IBA’s ability to sustain itself in the long term and to support the decision of ACGF’s stakeholders to initiate cooperation between IBA and ACGF.

The due diligence is needed to inform the decision to start or not the provisioning of ACGF guarantees for the MSME financings provided by IBA. Cooperation (for guarantees and beyond) between ACGF and IBA would certainly contribute to further business development and portfolio growth and thus to the institutional financial health of IBA. The due diligence – if having a positive outcome - will provide further strategic direction for the cooperation between ACGF and IBA.

2.2. Scope of Work

The consultant will conduct the due diligence of IBA. The evaluation will specifically consist of the following activities:

- Define the assessment framework for the assignment
- Conduct the Due Diligence considering the Financial, Governance and Operational assessment.
- Individual financing exposure and branch operations review in case of active MSME portfolio.

Assessment methodology

IBA shall be assessed based on a comprehensive framework, in coherence with common regulatory/best practice approaches for the assessment of the institutional alignment with ACGF's cooperation partner requirements. The framework shall assess the IBA viability based on the assessment of two areas (at reporting date): 1) institutional financials, and 2) IBA operational capacities (including the review of its strategic plan, governance structures, etc).

The due diligence should inform ACGF if IBA:

- Was able to maintain or regain its financial stability over the past 3 to 5 years, and the prospects of maintaining or regaining this financial stability in the future
- Ensured continuity of its critical functions, all those that are necessary to permit smooth business continuity in response to its main target group needs and core activities
- Is aligned with current and future common regulatory/ best practice approaches,
- Has in place an institutional strategic plan, whether this strategic plan provides a strategic match with ACGF, and whether IBA is capable of implementing it.
- Have in place AML/CTF measures and mechanisms in place aligned with DAB, and all internationally accepted standards (e.g. FATF 40 Recommendations).
- Has in place a sounding compliance capacity by assessing the institutional CDD/KYC and AML/CTF structures, with special highlight on sanction screening practices
- Is capable of managing credit risk by assessing the credit and risk processes, procedures, staff skills and experience and appraisal methodology.
- Has the necessary structures in place to implement and monitor Environmental and Social standards.
- Has technical assistance needs to improve and strengthen the lending structures and capacities of the institution.

2.3. Work Plan

No.	Phases, Activities, Deliverables	Suggested Time Frame
0	Preparation	Week 1
0.1	The Consultant conducts kick-off calls with ACGF and IBA management, risk and operations units to discuss the assignment and align expectations.	Week 1
1	Definition of the Assessment Framework	Week 1 - 2

1.1	The Consultant develops a preliminary list of all documents (FS, manuals, business plans and strategy, etc.) that shall be provided by IBA and inform the assessment.	Week 1 - 2
	<i>Deliverables:</i> Draft assessment framework, including a comprehensive list of IBA documents and a detailed implementation plan	<i>Within 2 weeks of the assignment</i>
1.2	The Consultant discusses the draft assessment framework with ACGF staff to validate and further refine the framework.	
	<u>Deliverable 1:</u> Final assessment framework including a detailed implementation plan	
2	Implementation of the Due Diligence	Week 3-4
	Based on the final assessment framework, the Consultant undertakes the due diligence assessment. To this end, the Consultant reviews IBA documentation and conducts interviews with its representatives. In particular, the assessment shall examine two main categories: 1) IBA financial strength, and 2) IBA's operational capacities (including the review of its strategic plan, governance structures, etc).	Week 3-4
2.1	Financial and Operational Assessment <u>Financial Assessment</u> Based on the final assessment framework the Consultant undertakes the financial assessment, considering: 1) Financing portfolio and portfolio quality, 2) Financial position (Solvency and ALM), and 3) Financial performance. To this end, the Consultant evaluates the last 3 years' financial information provided and maintained by IBA (portfolio data, balance sheet, income statement, etc.) verifying the stated figures, their reasonability and ensuring that a prudent approach is implemented related to estimates and the valuations used. In line with international best practices and regular practices in Afghanistan, some adjustments to the existing standards shall be considered: - Non-consideration of temporary time-bound relief measures (e.g. relief in credit classification/ provisioning policy).	Week 3-4

- Careful assessment of collateral valuation at current market conditions (e.g. mortgage assisted by immovable property guarantee, loan assisted by central government guarantee).

The assessment shall include:

1. Financing portfolio quality management

- Financing portfolio and its past and planned evolution
- Financing portfolio concentration per product, sector and branch
- Portfolio quality per product, sector, and branch with an ECL estimation and projected ECL based on volume expectations.
- Credit operations and risk management
 - Capacities of staff and the impact (if any) of staff turnover
 - Assess the lending policies (loan origination, assessment, decision, monitoring, delinquency management, collection) adjustments made to properly address the challenges of managing the lending cycle under the current market situation
 - Ability to properly implement lending processes (post-disbursement loan monitoring, manage delinquencies, undertake recoveries, loan reporting)
 - Level of internal controls in place to detect frauds and details of historical frauds by branches in the past 3 years
 - Ability to structure (and availability of) appropriate lending products
 - Assessment of the risk management framework and capacity of the risk department to manage all risks

2. Solvency and ALM

- Capital adequacy and solvency
- Liquidity management and risk
- For both, particularly compliance with national regulations (Financial Capital amount, Total Capital ratio, Tier 1 ratio) and liquidity ratios (Broad Liquidity ratio, Quick Liquidity ratio)

In line with international best practices and regular practices in Afghanistan, some adjustments to the existing standards shall be considered as per current and foreseen Afghan regulatory framework:

- Additional buffers for thresholds to account for additional needs under stressed market conditions,
- Adjustment of Asset Risk weights for various exposures (e.g. to central governments/ DAB, foreign and local banks to institutions)

	- Consideration of hard commitments (letter of comfort) by shareholders or other stakeholders (with positive effects on capital adequacy ratios) by means of capital increases or comparable measures - Revision of classifications of high-liquid assets and liquid assets to assess the real liquidity profile of financial instruments for each relevant currency, in line with Basel definitions for high-quality liquid assets. - Indebtedness, funding stability, and concentration risk, particularly considering future financial needs and plans (e.g. current negotiations with funders, expectations on the stability of deposits under consideration of eroding levels of trust among depositors, etc.). - Overall market risks exposure and management (interest rate risk, FX risk). 3. Financial Performance - Profitability and sustainability: Historic and projected profits & losses, including the breakdown of income streams, the breakdown of costs, impairment provisions, and key ratios (e.g. net interest margin, cost/income, loan impairment); concentration to customer/ segment, with exception of one-off items, carefully considering the impacts of extraordinary revenues/costs and their future sustainability. - Efficiency and productivity The Consultant shall further develop a most likely scenario in terms of IBA overall framework conditions and project the future evolution of selected variables as well as stress-testing selected indicators, to properly assess its potential future viability. <u>Assessment of Governance and Operational Capacity</u> Based on the final assessment framework as well as the financial assessment, the Consultant undertakes the assessment of the IBA governance and operational capacity and determines immediate and long-term TA needs. Based on an agreed prioritization¹ the following areas shall be considered: 1. Ownership and support by shareholders, in particular, their commitment to provide additional capital 2. Supervisory Board (composition, skills, supervisory and strategic functions)	
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¹ Under guidance of ACGF the Consultant shall define the extent of assessment for each of the mentioned areas. A special focus shall particularly be given to points 10) and 11).

	3. Executive management and top-level management capacities (skills, experience, quality of decision making, risk appetite, market position, particularly considering current levels of staff turnover in management positions) 4. Overall HR and staffing capacities, especially considering the increased turnover 5. Risk Management 6. Internal Control and Internal Audit functions 7. Compliance Management System (including KYC), especially considering the elevated risks related to international sanctions: - Assessment of the general compliance framework and capacity to manage AML/CTF, sanctions risks. - Assessment of the CDD/KYC/UBO/AML/CTF policies and procedures to manage money-laundering risk - Assessment of the controls they have to check whether procedures are complied with/ followed. - Special attention to sanction screening and PEP procedures. 8. MIS, Reporting capacity and information quality 9. Access to (inter)national transfer system, with a special focus on its ability to send/ receive international and national payments and its impact on critical institutional functions 10. Assess IT department capacity and skills, data quality, and capacity to serve business and reporting needs 11. Appropriateness of IBA business model and its strategic plan to function sustainably and remain viable, by assessing in how far the plan: - addresses the current situation and its market position; - provides reliable estimates/ assumptions, particularly on delinquency, income generation, and disbursement volume - provides adequate and realistic expected return on equity/asset, funding availability, and diversification; - risk level of the strategy (the complexity and ambition of the strategy compared to the current business model, etc.); - assesses the main exogenous/ internal factors that influence the success of the business model (IT, resource & operational capacity, etc); - considers IBA's ability to adjust and implement the strategic plan	
2.2	Individual financing exposure and branch operations review²	Week 4

² Subject to existence of an active MSME portfolio

	The Consultant identifies a sample of MSMEs (at least 20 businesses from different branches) to be visited by SCSA. The consultant will guide the SCSA team members in the review of the application of credit procedures at branch level and acquire an opinion of the understanding of the credit procedures by Branch Management and the practical application thereof in the branch. At least 3 branches should be visited by SCSA. During the visit, all Branch Managers will be interviewed by the team, as well as other employees as decided by the Consultant, including but not limited to Financing Supervisors, Financing Officers, Risk Officers, and Back Office staff. To the extent possible, the interviews will take place over an agreed online platform to enable the Consultant to participate. Where this is not possible, the outcomes will be reported to the Consultant by SCSA in a format established by the Consultant in coordination with ACGF.	
	Deliverable 3: On-site visit reports for at least 20 MSMEs	<i>Within 4 weeks of the assignment</i>
2.3	Consideration of on-site visits The Consultant incorporates the findings of the on-site visits into the IBA assessment. The Consultant finalizes the draft assessment report.	Week 5
	Deliverable 2: Draft assessment report.	<i>Within 5 weeks of the assignment</i>
3	Discussion of Findings and Finalization of Report	Week 6-7
3.1	The Consultant discusses the draft deliverable with ACGF and based on the feedback given, undertakes additional evaluation measures to enhance preliminary findings.	Week 6
3.2	The Consultant shares the findings with IBA to confirm the stated information and adjust (where necessary) based on feedback provided by the Institution.	Week 7
3.3	The Consultant prepares the final report, including business plan evaluation, country-level risk assessment, consolidated portfolio, financial and performance information, governance and operational capacity assessment,	Week 7

	and AML/CTF compliance capacity as well as a final recommendation for ACGF stakeholders.	
	<u>Final Deliverable:</u> Final due diligence report, including business plan evaluation, consolidated portfolio, financial and performance information, governance and operational capacity assessment, TA needs assessment as well as a final recommendation for ACGF stakeholders.	<i>Within 8 weeks of the assignment</i>
Total LoE		8 weeks

3. Procedure for deliverables review

The Consultant will give notice to ACGF in writing or via e-mail of the completion of deliverables and request acceptance. An approval and/or acceptance of deliverables by ACGF may require several feedback and revision rounds until deliverables are considered final. Review and acceptance of a deliverable must take place no later than 10 days after the Consultant has given notice in writing or via email of a deliverable being ready for acceptance. The Consultant should be available to hold discussions and present deliverables over conference calls with ACGF/SCSA and the project beneficiary, when necessary.

The payment schedule will be linked to the outputs considering the following payment plan:

- 1st Invoice: Completion and acceptance of deliverable 1 as per the above work plan.
- 2nd Invoice: Completion and acceptance of the final deliverable and project closing as per the above work plan.

4. Application of Consultant

The Applicant must send the full proposal including the financial offer not latest than November 2, 2026. ACGF requests a minimum proposal validity period of 2 weeks after the date of deadline for submission of proposals.

The Consultant may request a clarification of any part of the Terms of References ("ToR").

ACGF's evaluation process is aligned with international best practices, it is fair, transparent, free of discrimination, and adheres to the provisions in this document. ACGF exercises the authority to evaluate and select the best proposal. The selected best proposal will be the basis for negotiation and ultimately signing the contract with the Consultant.

ACGF reserves the right to decide to not implement this activity or to abort the procurement process if it deems appropriate.



EMPOWERING DEVELOPMENT

5. Logistics

The Consultant will be responsible for the timely delivery of activities and deliverables. The Consultant will report to the Guarantee Business Sales Manager of ACGF. All communication, as well as written documentation/deliverables, will be in English.

Annex 1: Declaration of Undertaking