

**Short-term Technical Assistance
Terms of Reference / Scope of Work**

Date: July 12, 2021

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| Project | Supporting FMFB-A in Improving SME Lending Structures | |
| Contract Type | Lump sum as per the acceptance of the achieved deliverables | |
| Start Date | 06.09.2021 | |
| End Date | 28.02.2022, or the final acceptance of the final deliverable to be provided hereunder, whatever occurs later | |
| Reports to | <i>Name - Title:</i> | Verena Kauth, Technical Assistance Officer |
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1. Background

1.1. Institutional Background

The ACGF - Afghan Credit Guarantee 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 has received all financial resources of a previous guarantee project managed by DEG, including its entire outstanding guarantee portfolio, and has been managing all operations since the beginning of 2015. ACGF provides partial guarantees to Afghan financial institutions which provide credit 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 per cent 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, to support 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 partner financial institutions ("**PIs**") by providing credit guarantees

for MSMEs and by providing comprehensive technical assistance (“TA”, training, coaching, product development, risk management improvements etc.).

As per the end of March 2021, ACGF (including its legal predecessor) has issued approx. 5,671 guarantees to support a combined disbursement of USD 253m in MSME loans. The market share of ACGF was approx. 50 per cent of all MSME loans outstanding by banks and MFIs in Afghanistan. The average net loss rate since inception is 1.7% p.a. ACGF estimates a retention of close to 35,500 employees of the guaranteed businesses and creation of approx. 13,000 additional jobs.

2. Background to Project

Currently, FMFB conducts its SME lending operations in the urban areas of Herat, Mazar, Kabul and Pule Khumry. Several further areas (Faizabad, Kishem, Andkhov, Aybak, Shaberghan, Maimana, Sari Pule, Bamyan, Charikar and Jalalabad) are only covered by microfinance operations. To expand and strengthen the market outreach, FMFB plans expanding its operations in these regions to SME lending, which will also allow to address to new markets.

To attain a successful and efficient lending expansion, the decision-making processes must be driven by a Lending Expansion Strategy that is based on a detailed market understanding and research. As FMFB is currently not having such a Lending Expansion Strategy, the bank is seeking support in formalizing one.

Moreover, FMFB is currently only offering microfinance loans in the earlier mentioned regions. To extend its market reach in these regions and likewise increase the profitability of the branches and ensure client retention, the offered loan sizes need to be upscaled. While loan officers in Afghanistan normally only operate in one loan field, such as micro, SME or corporates, FMFB envisions the introduction of the Universal Loan Officer (ULO) Concept in the existing microfinance branches.¹ This concept will extend the responsibilities of the loan officers to include parts of the SME segment. The training of the loan officers and the implementation of this concept in the target areas will thus allow to disburse higher amounts with the existing microfinance structures (branches and loan officers), thereby increasing the profitability of the branch operation and ensuring the retention of valuable clients that are at the upper end of the microfinance loans. Eventually, this development will increase FMFB’s market reach in the target areas. To allow the new concepts to be well-applied, the organizational set-up of the branches needs to be restructured. FMFB is thus seeking support in analysing the market demand and in determining the course for the new organizational structures that will allow FMFB to meet the identified demand.

Apart from the above-described issues, it is worth mentioning that FMFB has extensive experience in assessing SMEs, and the existing policies, procedures and methodologies for small loan origination and monitoring at FMFB are mostly adequate. Nevertheless, FMFB aims to keep their

¹ This shall be decided based on the Lending Expansion Strategy and the profitability of this concept in connection with the possible need for targeted SME staff.

policy and procedures up-to-date as well as to incorporate on a regular basis learnings as well as international standards and relevant regulations. Hence, FMFB plans to carry out improvements to its policy and procedures as well as related tools in the area of small loan sizes (AFN 500,001 – 5,000,000), which shall streamline already existing processes, increase efficiency, shorten turnaround times, and further develop tailored lending methodologies for different customer segments, such as service, trading, or manufacturing sector. Currently, the existing loan appraisal processes are not designed to differentiate various customer segments, such as service, trading, or manufacturing sector. As these processes are not yet tailored to the particularities of diverse customer sectors, efficiency during loan origination processes remains low. FMFB has, therefore, expressed its desire to overcome these challenges and adjust policies, procedures, and methodologies for small loan sizes accordingly.

2. The Assignment

2.1. Summary

The project is split into three separate parts **A**, **B**, and **C**, whereas **Part A** refers to the Expansion of SME Lending in Urban Areas, **Part B** includes the Improvement of Policy and Procedures for the Smaller SME Loan Segment, and **Part C** encompasses the provision of training to FMFB staff and Management on the implemented improvements.

Part A: In a preparatory phase, an external Service Provider will assess existing structures at FMFB that are relevant for the assignment as well as the internal potential of the existing micro-finance branches' portfolio with respect to microfinance borrowers that have the potential to soon become SME borrowers. Then, the most relevant markets for a potential expansion of operations in the geographical areas with existing microfinance branches will be identified through a focused market analysis. Afterwards, the Service Provider will analyse in detail the MSME market in the areas in which FMFB plans to expand its branches. In particular, the Service Provider shall analyse and assess the current MSME landscape in these areas, focusing on the main sectors MSMEs are active in, the identification of the market size and and the respective financing needs. The analysis of the latter shall especially be focused on the needs of the MSMEs and clients at the upper end of the microfinance segment. Based on the results, the Service Provider develops recommendations for the loan products with respective loan conditions offered for each region. The Service Provider then encompasses and translates all findings into recommendations for potential lending expansion plans. Based on discussions with the Senior Management of FMFB, the Service Provider then refines the recommendations to a Lending Expansion Strategy.²

² Please note that this Lending Expansion Strategy shall be focussed on, but not strictly limited to the SME segment but also consider the expansion in the microfinance market, there especially focussing on the upper end of the microfinance segment.

In a next phase, the Service Provider develops recommendations on the organizational setup of the branches. A special focus shall thereby be laid on extending loan officer's responsibilities to cover more than only one loan size (such as Micro or SME) and thus implementing ULO concepts in the branches. In cooperation with FMFB's management, the organizational structure for the respective branches will be defined, clearly indicating recruiting needs, staff responsibilities and reporting procedures / needs and lines with the headquarter, the financing products to be offered as well as updated and extended procedures, tools and /or templates where necessary. The Service Provider will then conduct a two-day workshop for the branch management team involved in credit decisions (branch managers and team leaders) of the extended branches on the new responsibilities, organizational set-ups, lending targets³, and reporting lines. Moreover, a one-day workshop for FMFB Senior Management on the former will be conducted.

Part B: At first, the Service Provider analyses the existing gaps in current policies, procedures, tools and templates for small loans by reviewing all relevant documents, the relevant regulation as well as interviewing FMFB's staff. Besides, the Service Provider assesses the current (small) loan portfolio with respect to the most prevalent business segments and provides recommendations on whether and how FMFB can tailor the existing structures to better serve these segments.

Afterwards, the Service Provider proceeds with updating the policies, procedures, methodologies, and tools in accordance with the gaps analysis.

Part C: Finally, the Service Provider will develop two separate training packages for the loan officers on (a) the ULO concept and the new organizational structures due to branch extension and (b) the updated policies, procedures, tools and templates for small loans. These training packages shall cover two weeks of training by the Service Provider and guiding material for on-site coaching by SCSA staff, which will cover 3 days of training at each branch over the course of four weeks.⁴ The implementation of the training packages both by the Service Provider and SCSA will be subject to a further approval and go-ahead of ACGF and FMFB after completion of Part A & B, due to the possible dependence on newly hired staff.

2.2. Objectives

The primary objective of this project is to increase FMFB's SME loan portfolio by increasing market outreach in underserved areas, improving portfolio quality and customer experience, as well as retaining customers at the upper end of the microfinance loan segment through offering adequate SME loan products.

³ The Service Provider is expected to develop lending targets for the respective branch managers based on the market assessment of Phase 2. These suggested lending targets will then be further discussed and refined in coordination with FMFB Senior Management.

⁴ The implementation of on-site coaching is dependent on the security situation in the locations of the respective branches. The final timeline and scope of coaching will be agreed between SCSA and FMFB in the course of the project.

The secondary objective is threefold. The project aims at enabling FMFB Management to take rational expansion decisions based on market research and data. Moreover, the project will enable microfinance branches to diversify the spectrum of offered finance products while having an efficient organizational structure and improved working processes. As such, and by improving its SME lending methodology, the project will enable FMFB to increase SME lending activities while maintaining good portfolio quality.

2.3. Result Framework

| # | Expected Results | Indicators of Achievement |
|----|--|---|
| 1. | FMFB has a Lending Expansion Strategy that is in line with FMFB's general Business Goals, and the Management knows about the market potential in yet under- or unserved regions in Afghanistan. | <ul style="list-style-type: none"> - A market analysis for new target markets and for regions with existing micro-finance branches is developed - The Service Provider has identified potential SME clients in the regions with existing micro-finance branches (based on internal assessment and market analysis) - Based on this market analysis, the Service Provider has developed an adequate Lending Expansion Strategy for FMFB - The Lending Expansion Strategy has been discussed with FMFB Management and comments have been incorporated |
| 2. | The staff and management in the branches are aware of the new finance products for the SME sector. The respective personnel has been assigned and trained on the new products and can thus operate in their new areas of responsibility. | <ul style="list-style-type: none"> - A new organizational structure has been developed, discussed with FMFB Management and comments been incorporated - New organizational manual has been provided to management and staff at the targeted branches - Training has been conducted for Senior Management, branch managers and loan officers |
| 3. | FMFB has in place policies, procedures and tools for origination and monitoring of small loans (AFN 500,001 – 5,000,000). | <ul style="list-style-type: none"> - Conducted gap analysis of the current methodologies for loan origination and monitoring of small loans - Updated policies, procedures and tools for small loans have been developed, discussed with FMFB Management and comments are incorporated. - Training has been conducted for SME loan officers. |

3. The Proposed Implementation

3.1. Work Plan

The activities and deliverables of the assignment are anticipated to be conducted in one continuous intervention of the external Service Provider. The Service Provider may propose additional activities, adapt the structure of the assignment or the level of effort if deemed necessary for a successful implementation of the assignment.

The Service Provider may further refine the sequence of activities as part of their proposal. In particular, the Service Provider may conduct some of the activities in parallel. **Applicable synergies between activities for Part A, B and C may be taken into consideration during project design and implementation.**

The external Service Provider will be responsible for the timely delivery of activities and deliverables. The Service Provider will report to ACGF's TA Project Manager. Any on-site work of the external Service Provider will be conducted with support from ACGF and SCSA. All communication as well as written documentation / deliverables will be in English.

| No. | Phases, Activities, Deliverables | Suggested Time Frame |
|----------|--|---|
| 0 | Project kick off | |
| 0.1 | Conduct Kick-off Call with ACGF and FMFB management | |
| | <u>Part A: Extension of SME Lending in Urban Areas</u> | |
| 1 | Preparation | Week 1 - 2 |
| 1.1 | Understand FMFB's current organizational set-up, decision-making processes on Management level and business goals/strategy | Week 1 |
| 1.2 | Understand FMFB's current financing products | Week 1 |
| 1.3 | Conduct a workshop with FMFB's Senior Management to understand and align their vision, goals, and strategy regarding the planned expansion process | Week 2 |
| | Sub-Deliverable 1.1: Report analysing the current state and expansion goals of FMFB | <i>Within 2 weeks of the assignment</i> |
| 1.4 | Analyse FMFB's internal potential of the existing MF branches by: <ul style="list-style-type: none"> - Reviewing the current microfinance loan portfolio in the regions with existing MF branches - Identifying and quantifying the existing microfinance borrowers of the existing micro-finance branches that have potential to become SME clients in a short period⁵ | Week 2 |

⁵ E.g. within one or two loan cycles based on the graduation principles in FMFB – if any for microfinance – and the growth potential of the businesses.

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| | <ul style="list-style-type: none"> - Reviewing the organizational structures of the microfinance branches in the regions | |
| | Deliverable 1: Report on current state and expansion goals; Report on microfinance branches' internal potential | <i>Within 3 weeks of the assignment</i> |
| 2 | Market Analysis and Strategy Development | Week 3 - 8 |
| 2.1 | Identify the most relevant markets for an expansion of operations in the regions with existing microfinance branches | Week 2 |
| 2.2 | Analyse these potential new markets regarding market characteristics, market potential and financing needs | Week 3 - 4 |
| 2.3 | Based on these findings, develop recommendations for loan products for each region/branch | Week 5 |
| 2.4 | Develop recommendations for lending expansion, covering all areas necessary for the lending expansion (such as Human capacity needs, IT infrastructure, Business Sales, etc.) | Week 6 |
| | Sub-Deliverable 2.1: Market analysis for regions with existing microfinance branches and expansion recommendations; Recommendations for loan products | |
| 2.5 | Conduct a workshop with FMFB Senior Management to gather feedback on and validate the developed recommendations | Week 7 |
| 2.6 | Based on these findings, assessments, and recommendations, develop a Lending Expansion Strategy for FMFB | Week 8 |
| | Deliverable 2: Market Analysis; Lending Expansion Strategy for FMFB as a whole and focus sections with distinct recommendations on loan products for the existing MF branches | <i>Within 8 weeks of the assignment</i> |
| 3 | Organizational Set-up | Week 9 - 13 |
| 3.1 | Develop a job description for ULOs and define, in corporation with branch managers of the micro-finance branches, key performance measures to identify potential ULOs in the branches | Week 9 |
| 3.2 | Assess the capacity level of the existing microfinance loan officers in these branches and identify potential ULOs that could work with higher loan amounts | Week 9 |
| 3.3 | Develop incentive mechanisms to <ul style="list-style-type: none"> - Motivate good microfinance loan officers to work as ULO - Motivate a loan transfer between the loan officers | Week 10 |
| | Sub-Deliverable 3.1: Report on microfinance loan officer assessment, including the job description for ULOs, recommendations for staff of micro-finance branches to become ULO, and incentive mechanisms | <i>Within 10 weeks of the assignment</i> |

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| 3.4 | Develop an organizational structure, including the offered product portfolio with respective conditions and lending targets for each branch, staff requirements with respective positions, and a concept for universal loan officers with clear responsibilities in terms of allowed loan sizes, reporting requirements, new policies, and guidelines | Week 10 -11 |
| | Sub-Deliverable 3.2: New organizational set up draft report | <i>Within 11 weeks of the assignment</i> |
| 3.5 | Send the new organizational set up draft report to FMFB Management and SCSA for their review and incorporate their comments | Week 12 |
| 3.6 | As per the identified need, draft new or extend the existing manuals to incorporate the final organizational structure, policies, and processes | Week 13 |
| | Deliverable 3: New organizational set up report; Updated manual reflecting and incorporating the final organizational structures, policies, and processes | Within 14 weeks of the assignment |
| Part B: Improvement of Policy and Procedures for Smaller SME Loan Segment | | |
| 4 | Gaps Analysis | Week 2 - 4 |
| 4.1 | The Service Provider reviews the current origination and loan monitoring policies, procedures, and tools/templates, as well as the relevant Afghan regulation for small loans (AFN 500,001 – 5,000,000) at FMFB, taking into consideration international best practices. The Service Provider identifies existing gaps and develops first recommendations for improvement. | Week 2 - 4 |
| 4.2 | The Service Provider reviews FMFB's current loan portfolio with respect to the most prevalent customer segments and identifies the needs and obstacles of these customers for successful loan applications. Afterwards the Service Provider gives recommendations on whether and how the existing policies procedures and methodologies at FMFB should be tailored to the particularities of the assessed customer segments. | Week 2 - 4 |
| 4.3 | The Service Provider conducts interviews with relevant management personnel and staff at the PI to receive insights into the implementation of current policies and procedures as well as expected improvements, as per the need before, in between and/or after the above-mentioned steps. | Week 2 - 4 |
| | Deliverable 4: Gap Analysis Report including recommendations for improvement to guide the further development of policy and procedures | <i>Within 4 weeks of the assignment</i> |

| 5 | Development | Week 5 - 8 |
|--------------------------------------|---|--|
| 5.1 | The Service Provider develops, and drafts updated policy, procedures and tools/templates for origination and monitoring of small loans. In addition, the Service Provider develops tailored procedures and tools for assessing and monitoring each of the previously identified customer segments (if recommended in the gap analysis). | <i>Week 5 - 8</i> |
| | Sub-Deliverable 5.1: Draft policies, procedures tools and templates for small loans | <i>Within 8 weeks of the assignment</i> |
| 5.2 | ACGF/SCSA and FMFB each review the draft policy and tools and provide detailed feedback to the Service Provider. | <i>Within 14 days of receiving the deliverable</i> |
| | Deliverable 5: Final versions of the interim deliverable documents submitted to ACGF / SCSA and FMFB for approval | <i>Within 10 weeks of the assignment</i> |
| <u>Part C: Training Phase</u> | | |
| 6 | Capacity Building of Management | Week 14 - 15 |
| 6.1 | Develop training material for branch managers, team leaders and FMFB Senior Management for both the upscaling of branches and the ULO concept as well as the improvement of policy and procedures for small loans. | Week 14 |
| 6.2 | Conduct a two-day workshop for FMFB Senior Management | Week 15 |
| 6.3 | Conduct a one-day workshop for branch managers and team leaders | Week 15 |
| | Deliverable 6: Training Material | <i>Within 15 weeks of the assignment</i> |
| 7 | Capacity Building of Loan Officers | Week 16 - 22 |
| 7.1 | Develop distinct training packages for loan officers on: <ul style="list-style-type: none"> • The ULO concept • The newly updated policies, procedures, and methodologies for small loans. | Week 16 |
| 7.2 | Conduct a five-day workshop for loan officers on the ULO concept with participants from the respective branches | Week 17 |
| 7.3 | Conduct a five-day workshop for loan officers on the newly updated policies, procedures, tools, and methodologies for small loans | Week 18 |
| 7.4 | SCSA: Conduct 4 weeks on-site coaching for the loan officers, covering 3 days of coaching for each branch Service Provider: Consult on and be available for any questions arising by SCSA | Week 19 - 22 |
| | Deliverable 7: Training Plan for loan officers, Training Material, Final Report Draft | <i>Within 23 weeks of the assignment</i> |



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| 8 | Project Closing | Week 23 |
|-------------------------|---|-----------------------------------|
| 8.1 | Conduct closing workshop with FMFB Management and branch managers | Week 23 |
| 8.2 | Finalize Final Report | Week 23 |
| | Deliverable 8: New organizational set up report and manual | Within 24 weeks of the assignment |
| Total Time Frame | | 23 Weeks |

The Service Provider 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 14 days after the Service Provider has given notice in writing or via email of a deliverable being ready for acceptance. The Service Provider should be available to hold discussions and present deliverables over conference call with ACGF/SCSA and the project beneficiary, when necessary.

3.2. Logistics

It is expected that the Service Provider is available for on-site work in **Phase 1 and 2 of Part A** as well as for the three workshops/trainings planned in **Part C**. If the security situation does not allow for international travel, the Service Provider can outsource the on-site work to a qualified local consultancy. However, outsourcing this service will completely lie in the responsibility and under the management of the Service Provider. When outsourcing these services, proficiency, high quality, and timely manner must be ensured.

All travel to Afghanistan, if applicable, will occur on the own risk of the Service Provider and the Service Provider will be responsible for taking all precautions necessary to ensure the safety of its representatives, employees, or sub-contractors.

The Service Provider will be responsible for the timely delivery of activities and deliverables. The Service Provider will report to ACGF’s TA Officer as well as to the designated contact of the PI. Any on-site work of the Service Provider will be conducted with support from ACGF, SCSA and in collaboration with the relevant officers and managers of the PI. All communication, as well as written documentation/deliverables, will be in English.

4. Application of Service Providers

The deadline for submission of proposals is August 01, 2021. Please submit the proposal and related documents via email to Verena Kauth, Technical Assistance Officer (v.kauth@acgf.de) including a written confirmation of the proposal validity period not less than two weeks beyond the submission deadline. Any proposals received beyond the mentioned deadline will be rejected and not included in the proposal evaluation process. ACGF reserve the right to decide to not implement the assignment or to terminate the procurement process if it is deemed appropriate.

The Service Provider may request a clarification of any part of the Terms of References (“ToR”) until July 23, 2021, any request for clarification must be sent by email to Dana Al Sunna, Technical Assistance Officer (d.alsunna@acgf.de). Any request for clarification received beyond the mentioned deadline will not be addressed.

ACGF’s evaluation process 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 proposal will be the basis for negotiation and ultimately signing the contract with the selected Service Provider.

The Service Provider is explicitly encouraged to present a detailed critical analysis and an interpretation of the assignment objectives and the ToR. This might encompass critical comments and doubts about suitability, consistency, and feasibility of individual aspects and the entire concept, if any. The methodology suggested must take a constructive account of these.

4.1. Qualification of Service Provider

Proof of qualification for necessary project skills:

Qualification for necessary project skills:

- (1) Extensive expertise and experience in market research, institutional assessment, and business planning for institutions, especially regarding business/lending expansion strategies
- (2) Expertise in and in-depth knowledge of MSME lending
- (3) Expertise in establishing and writing policies and procedures, credit lending technology and adaptation of the concepts to the specific requirements of customers
- (4) Proven track record in providing consulting & capacity development services
- (5) Ideally, familiarity with Afghan financial sector and SME lending
- (6) Availability to travel to Afghanistan or identified local partner to outsource on-site work

The qualification of the Service Provider should be supported with references to relevant past assignments including (a) assignment synopsis, (b) duration and period, (c) client name and contact

details, (d) relevance for underlying project, (e) CV's of project team personnel and their respective roles, responsibilities, and LoE.

If a sub-contractor is foreseen by the plan, then proof of sub-contractor's qualification should be provided too.

4.2. Required Items for Application

In response to the posting of the ToR, the service provider must include the following items as part of its proposal:

1. **Critical analysis** of ToR and suggested LoE (1-2 pages).
2. **Methodology** for completing the activities and deliverables detailed in the ToR (2-4 pages).
3. **Work Schedule** including all intended activities, LoE and timeline.
4. **Financial offer** in USD including
 - (1) Breakdown of total costs
 - a) Service fee: Fee per day or lump sum with breakdown of costs.
 - b) Project support costs: lump sum with breakdown of costs or to be reimbursed against invoices.
 - c) Expenses: international travel, national travel, transport, accommodation, per diem allowances, etc. to be reimbursed against invoices.
 - d) Taxes: if applicable
 - (2) Breakdown of total cost according to the number of branches targeted under this assignment⁶
 - (3) Tentative payment schedule
5. **Written confirmation of proposal validity period** not less than two weeks beyond the submission deadline of August 01, 2021.
6. Signed **Declaration of Undertaking** (please see Attachment 1)

⁶ Due to the unstable security situation, it is possible that the number of targeted branches will change during the assignment, resulting in a lower Level of Effort.