

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

Date: October 23, 2023

Project	Ongoing Islamic Finance Advisory	
Start Date	02.01.2024	
End Date	31.12.2025, or the final acceptance of the final deliverable to be provided hereunder, whatever occurs later	
Reports to	<i>Name - Title:</i>	Jana Büssing – Junior Technical Assistance Analyst
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Contract Type	Fixed fee per day	

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 June 2023, ACGF (including its legal predecessor) has issued approx. 11,184 guarantees to support a combined disbursement of USD 260m 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 3.1% p.a. ACGF estimates a retention of close to 46,600 employees of the guaranteed businesses and creation of approx. 12,600 additional jobs.

1.2. Background to Project

Since the accession of the Taliban to power, the Afghan financial sector underwent a large-scale shift to the principles of Islamic finance. The new de-facto authorities restricted the collection of interest and imposed heavy restrictions on the activities of financial institutions in the market. After a period of initial uncertainty on the future state of the financial sector, the regime began requiring financial institutions to transform their institutional framework and product offerings toward Sharia compliance. Currently, outstanding portfolios from before the regime change have not been converted to Sharia-compliant loans; although it is unlikely, the regime may still decide to issue respective regulations to enable such conversion.

Immediately after the regime change, ACGF hired an external advisor to assess the institutional framework of ACGF for potential amendment needs and to redesign its guarantee products. Subsequently, at the beginning of 2023, the DAB approved the updated Sharia-compliant guarantee product, and ACGF began the renewed provision of guarantees to PIs. The foundation also structured a Sharia-compliant matching grants programme, and has started implementation in October 2023.

Besides the activities to support ACGF, the external consultant provided precious support to PIs in Afghanistan, offering guidance on strategy development, institutional transformation processes and product development. ACGF also initiated and completed two different product development projects with PIs, successfully introducing products, ranging from Salam, Istisna and Wakala financing products. An on-the-ground study on the Sharia-compliant financing needs of MSMEs complemented these activities.

Amid still ongoing transformational processes in the country, ACGF must strive to continuously enhance its capacities on Sharia-compliant financial products and institutional frameworks, as well as to strengthen staff capacities, which requires ad-hoc external support.

2. The Assignment

2.1. Summary

This project aims to enhance the capabilities of ACGF in understanding and adopting Islamic Finance principles. In particular, the project involves various activities, such as developing Sharia-compliant product frameworks, capacity-building for ACGF/SCSA staff and liaising with relevant authorities to ensure smooth implementation and approval of ACGF products in Afghanistan. It is important to note that the selected Service Provider will not be continuously intervening but will rather act as a pool of expertise that ACGF can access when needed. The project will last 24 months.

2.2. Objectives

The primary objective of this project is to enable ACGF to provide Sharia-compliant services and products to PIs and MSMEs in Afghanistan.

2.3. Result Framework

#	Expected Results	Indicators of Achievement
1.	For specific developments flagged by SCSA Focal Point, ACGF has a good understanding of potential implications for ACGF/SCSA and its PIs, including necessary steps to be taken to ensure further operations.	<ul style="list-style-type: none"> - Documents assessing the impact of specific events on the product offerings and institutional setup of ACGF/SCSA and potentially PIs - Monthly coordination call with SCSA Focal Point and ACGF
2.	ACGF is able to offer Sharia-compliant products and services, including the approval and acceptance by relevant stakeholders.	<ul style="list-style-type: none"> - Product concepts - Formal (written) approval by the relevant authorities/ stakeholders
3.	ACGF/SCSA staff possess the awareness to flag relevant Sharia-compliant topics once they become relevant.	<ul style="list-style-type: none"> - Training attendance reports - Positive feedback of SCSA's and ACGF's Focal Points on staff knowledge
4.	ACGF successfully supports its PIs in implementing (novel) Sharia-compliant	<ul style="list-style-type: none"> - Structured ideas for new TA assignments for ACGF's PIs that are approved by PIs - Positive PI Feedback

financial products and services and understands their needs.	
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3. The Proposed Implementation

3.1. Work Plan

	Activities
1	<p>Understand ACGF's/SCSA's operations and product offerings, the regulatory environment in Afghanistan as well as ACGF's PIs.</p> <ul style="list-style-type: none"> - Review documentation prepared by ACGF and PIs - Conduct calls with different departments at ACGF/SCSA - Participate in introductory sessions with ACGF's PIs
2	<p>Develop Sharia-compliant product frameworks for existing and new guarantee products. If local regulation allows and if desired by PIs, support the conversion of outstanding conventional loans guaranteed by ACGF.</p> <ul style="list-style-type: none"> - Collect requirements from various stakeholders - Analyse different possible transaction structures and provide recommendations - Review legal agreements - Present the results to management and external stakeholders
3	<p>Support the needs assessment with PIs.</p> <ul style="list-style-type: none"> - Structure discussions on the PI product development and other institutional needs - Provide recommendations on feasible product offerings and other institutional needs - Support the design of TA projects
4	<p>Assess the implications of specific political developments in the country for ACGF/SCSA and the PIs.</p> <ul style="list-style-type: none"> - Take part in monthly coordination calls with the SCSA Islamic finance Focal Point to receive updates on the developments in the country - As per specific request, assess the implications of such developments on ACGF/SCSA and/or its PIs.
5	<p>Conduct capacities building activities for ACGF/SCSA staff, including coaching for the Islamic finance Focal Points at SCSA and ACGF.</p>

	<ul style="list-style-type: none"> - Conduct at least two general trainings on the basic principles of Islamic finance within the framework of the ACGF guarantee business - Conduct on-the-job coaching, as per the need - Coach ACGF TA Department staff to become the internal Focal Point on Islamic finance
6	<p>Support discussions with donor organisations and the preparation of technical proposals.</p> <ul style="list-style-type: none"> - Assess donor discussions and proposals on feasibility and potential implications for Sharia compliance - Propose Sharia-compliant structures to implement donor-led activities - Create product flowcharts - Review legal agreements (including agreements for specific financial products, agreements with donor organisations or other)
7	<p>Liaise with DAB representatives to ensure flawless implementation and swift approval of ACGF products and favorable regulatory treatment of these products.</p> <ul style="list-style-type: none"> - Support during the creation of requests to the DAB - Lead discussions with DAB representatives on Sharia compliance issues
8	Any other task assigned by ACGF

The Service Provider will give notice to ACGF in writing or via e-mail of the completion of a 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 15 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. Technical Details of the Assignment

3.2.1. Methodology

The above activities present the general outline for engagement of the Service Provider. However, the explicit workload for each of the activities cannot be foreseen as concrete support needed is highly dependent on future developments. In general, the average LoE per month is expected to not exceed 5 days. At specific times, e.g. when new guarantee products have to be developed or trainings have to be conducted, LoE might exceed this average LoE. In such cases, ACGF and the Service Provider will align on expected availability of the consultant. Likewise, some months might

require less than 5 days involvement. While tasks might come in in short notice, several engagement areas can be planned ahead of time in order to ensure alignment with the Service Provider's other assignments. During contract negotiations, ACGF and the Service Provider will agree upon a response time of the Service Provider.

The Service provider will only engage in the above activities upon explicit request of ACGF. In addition, at least one monthly coordination call with ACGF's and SCSA's Focal Points will be conducted.

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 will report to ACGF's Junior TA Analyst. All communication as well as written documentation / deliverables will be in English.

3.2.2. Logistics

The Service Provider shall fulfil specific tasks in line with the activities mentioned in section 3.1 upon the request of ACGF during regular meetups. The monthly level of effort amounts to a maximum of 150 days (729 days in total for the contract duration). The LoE for this assignment mainly depends on the further developments in the country and other external factors. The Service Provider will fill in monthly timesheets, reflecting the executed work.

4. Application of Service Providers

The deadline for submission of proposals is December 01, 2023. 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. ACGF requests a minimum proposal validity period of 4 weeks after the date of deadline for submission of proposals (at least until December, 29 2023).

The Service Provider may request a clarification of any part of the Terms of References ("ToR") until 7 days prior the submission deadline indicated above (i.e. November 24, 2023), any request for clarification must be sent by email to Jana Büssing, Junior Technical Assistance Analyst (j.buessing@acgf.de)

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

Qualification for necessary project skills:

1. Expertise in and in-depth knowledge of Sharia-compliant financial products.
2. Expertise in structuring novel financial products considering the restrictions of Islamic contractual law.
3. In-depth knowledge of Islamic contractual law and experience in dealing with Sharia boards.
4. Profound background in consultancy and customizing working results to different target audiences.
5. Ideally, familiarity with Afghan financial sector and MSME lending.
6. Experience in supporting financial institutions in their conversion to Sharia compliance is an asset.

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 and (e) and the CVs 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 Euro 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;



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d) Taxes: if applicable

(2) Tentative payment schedule

5. Signed Declaration of Undertaking

6. Written confirmation of proposal validity period of 4 weeks after date of deadline for submission of proposals.

Annex 1: Declaration of Undertaking