



CREDIT GUARANTEE FUND AFGHANISTAN

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

Date: July 01, 2024

Assignment	FMFB Pool Management	
Start Date	02.09.2024	
End Date	16.01.2025, or the final acceptance of the final deliverable to be provided hereunder, whatever occurs later	
Reports to	<i>Name - Title:</i>	Mohammad Al-Asadi, Development Finance Analyst
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Contract Type	Lump sum as per the acceptance of the achieved deliverables	
Estimated Level of Effort	71 days	

1. Background

1.1 EMERGE Project Background

The Afghanistan Empowering Microfinance and Enterprises for Resilience and Growth (EMERGE) Project aims to build sustainable solutions for developing both the demand for and supply of finance for micro and small enterprises in Afghanistan, prioritizing women's financial inclusion. The project will bolster the stability of the microfinance sector by providing performance-based capital support grants (linked to sponsors' own capital injections). Additionally, the operation will provide support to Microfinance Providers (MFPs) as they transition to Islamic Finance through Shariah-compliant product development and operational capacity building. The project addresses gaps in access to finance, which disproportionately impact women. It also aims to improve economic agency and provide job opportunities to targeted female beneficiaries. The project aligns with the need to deliver to women and ensure the participation of women.

The component that ACGF implements will strengthen the supply of finance to micro and small enterprises in Afghanistan through provision of performance-based Capital Support Grants as well as Technical Assistance (TA). The TA Activities, of which this assignment will be part of, aim to deepen the sector and to enhance its outreach by focusing on the deployment of Shariah-compliant products, digitization, and operational capacity building.

1.2 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 and matching grants to MSMEs. 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 2024, ACGF (including its legal predecessor) has issued approx. 12,900 guarantees to support a combined disbursement of USD 267m 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 6.3% p.a. ACGF estimates a retention of close to 52,000 employees by unique borrower of the guaranteed businesses and creation of approx. 12,600 additional jobs.

1.3 Background to Assignment

Since the regime change in Afghanistan, the authorities emphasized an imminent shift towards a full-fledged Islamic financial system in Afghanistan. Currently, Afghan financial institutions are adjusting existing business models and structures to fit the new regulatory landscape and norms. After a period of limited operational activity following the change in government in 2021, Afghanistan's financial sector has restarted operations under the new Shariah-compliant regulatory framework in 2023. FMFB has obtained approval from the regulator Da Afghanistan Bank (DAB) to work as an Islamic Bank. To ensure carrying out activities effectively and with adherence to Shariah principles in accounting, Pool Management and Profit Distribution Management should be integrated with banking operations.

FMFB has approached ACGF to support them in the revision and implementation of a Pool Management and Profit Distribution Management (PDM) system that ensures the adherence to Shariah principles and enhance FMFB staff's capacity on the utilization of the Pool Management Framework.

Although FMFB has developed a Pool Management Policy with the support of a consultant in 2022, the full implementation of Pool Management and Profit Distribution Management is new for the organization. FMFB lacks capacity for a revision and smooth implementation of the framework. The purpose of reviewing the already developed framework is to ensure its adherence with Shariah principles to mitigate any issues that could potentially arise during compliance audits.

Furthermore, FMFB worked with an IT consultant to develop the system required to implement the Pool Management and Profit Distribution Management. FMFB also conducted a pilot phase to test the developed system with one of the pools, and the results revealed that the developed system and its integration into the CBS can support the pool management and profit distribution. However, FMFB has doubts in its approach to the implementation and wishes to ensure that the operations of the system (in terms of pool(s) setup, deductible costs, expected profit rate(s)...etc.) are in fact in line with DAB regulations and Shariah requirements.

FMFB's IT department confirmed that it can implement the previously developed framework in the CBS. However, as the revised Pool Management Framework may differ from the tested one, an IT assessment (Pool Management System Analysis) shall identify IT requirements for the implementation and ensure that the revised framework can be integrated in the CBS. The assessment of the system may result in IT development work that may be beyond FMFB's IT team capabilities and discussion with the vendor / system provider and further work from the consultant may be required during the assignment. If the Pool Management System Analysis Report results that further IT development is needed, this is not part of the assignment scope and remains FMFB's responsibility.

FMFB aims to establish three pools for investments:

1. Pool for Islamic Financing: The deposits used to fund FMFB's Islamic financing will receive their profits from this pool.
2. Pool for Islamic placement/investment with banks outside Afghanistan: The savings deposits used to fund this investment will get their profits from this pool, mainly from USD Depositors.
3. Pool for Islamic placement/investment with DAB: These will be mainly Afghani (AFN) deposits used to generate profits and shared with Mudarabah depositors.

Based on the above, a revision of the already existing policy and system, as well as the proposed pool setup, is needed to develop a Pool Management Framework that satisfies both Shariah and operational requirements of the bank. Open questions as which elements go into the pool from asset

and liability side, or how links are established between certain asset products and certain liability products should be clarified during this process.

In addition to the framework and system revision as well as the development of the Pool Management Framework the assignment will include training for FMFB staff to ensure a smooth implementation of the Framework and a smooth integration in the bank's business operations.

2. The Assignment

2.1. Summary

To adhere to Islamic Banking principles, First Microfinance Bank (FMFB) is planning to implement a Pool Management Framework (PMF) that ensures a Shariah-compliant Profit Distribution Management (PDM). The term Pool Management is used in this document to refer to creating a Pool and assigning relevant assets (financing) and liabilities (deposits) to it, including what types of products will be linked to that Pool and how much of the bank's capital is allocated to that Pool. The term Profit Distribution Management refers to the calculation of the income generated from the pool, deduction of the relevant cost and allocation of the profit to each of the assigned liability products and the bank's profit and then distributing that profit to the depositors and the bank. The Pool Management Framework encompasses Pool Management and Profit Distribution Management.

The Consultant is going to review already developed policies and system(s) and based on the results and FMFB's needs, develop a Pool Management Framework to be integrated in FMFB's business operations. The Pool Management Framework will include policies and procedures covering Pool Management and Profit Distribution Management. The Consultant shall assess the possibility of the implementation of such framework into FMFB's Core Banking System (CBS), which is Flex Cube. In addition, the Consultant will ensure that the developed Pool Management Framework is in full compliance with Da Afghanistan Bank (DAB) regulations and Shariah principles. Furthermore, relevant FMFB staff will be trained in utilizing the Pool Management Framework. The Consultant will coordinate closely with FMFB's relevant departments, including the finance and IT department. The assignment scope includes post-implementation guidance on the Pool Management Framework and additional advisory in case that FMFB's business activities expand, as per the assignment workplan.

2.2. Objectives

The objective of this assignment is to enable FMFB to implement a Pool Management Framework, including Pool Management and Profit Distribution Management (PDM), that complies with the existing regulatory framework and Shariah principles.

2.3. Result Framework

#	Expected Results	Indicators of Achievement
1.	FMFB can use a Shariah-compliant Pool Management & Profit Distribution Management (PDM)	Developed Pool Management Framework and Pool Management System Analysis Report
2	FMFB's Pool Management Framework is in full compliance with DAB regulations and Shariah principles	Developed compliance report
3.	FMFB's respective employees are trained to use the Pool Management and Profit Distribution Management (PDM) systems	<ol style="list-style-type: none"> Employees of FMFB's Finance Department, Treasury Department, IT Department and Operations Department are trained on the Pool Management Framework and its utilization (as applicable). Numbers of employees that complete the training. Developed training materials.

3. The Proposed Implementation

3.1. Work Plan

No.	Phases, Activities, Deliverables	Suggested Time Frame
00	Procurement	
00.1	Proposals due	
00.2	Contract signed	
0	Preparation	Week 1
0.1	Coordination between ACGF and FMFB on responsibilities and expectations of the Kick-Off Call	
0.2	Kick-off call with the Consultant, FMFB and ACGF	
1	Pool Management Framework Development	Week 2 - 11
1.1	Familiarization with FMFB's Business Operations, Existing Pool Management Policy, and Pool Management System	Week 2-3

	<ul style="list-style-type: none"> - Desk review of current Pool Management Processes, Policies, the developed Pool Management system and documentation of the pilot phase - Discussion with FMFB departments to understand operational business of the organization. - Discussion with FMFB on expectations of the Pool Management Framework 	
1.2	Familiarization with regulatory landscape applicable to Pool Management and Profit Distribution	Week 4
1.3	Analyzing the feasibility of the current Pool Management structure and its compatibility with the core banking system as well as Pool Management and Profit Distribution needs.	Week 5
1.4	Based on the results of feasibility and system analysis develop a first draft for a Pool Management Framework (that includes PM & PDM) and Pool Management System Analysis Report	Week 6 - 8
1.5	ACGF and FMFB provide Feedback on the Pool Management Framework and Pool Management System Analysis Report	Week 9
1.6	<p>Consultant finalizes the Pool Management Framework:</p> <p>The Pool Management Framework (Pool Management & Profit Distribution Management) should include inter alia:</p> <ul style="list-style-type: none"> - Policy - Procedure <p>Deliverable 1: Final Pool Management Framework</p>	Week 10
1.7	<p>Consultant finalizes the Pool Management System Analysis Report.</p> <p>The Report should include inter alia:</p> <ul style="list-style-type: none"> - System analysis findings - Integration needs with CBS. - Development needs (if any) - Implementation plan (if required) <p>Deliverable 2: Final Pool Management System Analysis Report</p>	Week 11
2	Regulatory compliance	Week 12 - 13
2.1	Examining the full compliance of the developed Pool Management Framework in accordance with applicable regulatory requirements	Week 12

2.2	<p>Consultant finalizes the Regulatory Compliance Report</p> <p>The Report should include inter alia:</p> <ul style="list-style-type: none"> - Review of applicable regulations and standards - Compliance verification of the Pool Management Framework - Audit preparedness for regulatory authority - Recommendations and guidelines <p>Deliverable 3: Regulatory Compliance Report</p>	Week 13
3.	Capacity Building	Week 14 - 19
3.1	<p>Coordination:</p> <p>FMFB collaborates with the Consultant and avails resources for the training</p>	Week 14
3.2	<p>The Consultant Develops Training Materials for Capacity Building for FMFB employees. Consultant shares the material before the training</p>	Week 14 - 15
	ACGF and FMFB Provide Feedback on the Training Material	Week 15
	Deliverable 4: Training material for on-site training	Week 16
	The Consultant conducts a training on the newly developed Pool Management Framework	Week 17
3.3	<p>The Consultant develops Training Material on the Pool Management Framework for self-study purposes, format to be specified (e.g. Self-Study Guide, E-learning course)</p> <p>Deliverable 5: Training Material on Pool Management</p>	Week 18 – 19
4	Assignment Closing Phase	
4.1	Assignment closing call with the PI to discuss lessons-learnt, assignment satisfaction (yes/no) with project management and Consultant	
Total LoE/Timeframe		19

No.	Follow Up	By whom	Timeline
1	Follow up with Consultant, FMFB and ACGF to analyze the implementation of the Pool Management Framework to ensure it remains aligned with FMFB's evolving business operations and is in full compliance with regulatory requirements.	ACGF, FMFB, Consultant	3 months after the assignment completion

3.2. Technical Details of the Assignment

3.2.1. Methodology

The activities and deliverables of the assignment are anticipated to be conducted in one continuous intervention by the Consultant with one follow up activity as specified in the workplan. The Consultant 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 deliverables should be strictly based on the assessment of the needs and objectives of the assignment. The developed deliverables need to be flexible enough to accommodate future changes in the banking operation needs of FMFB. The assignment of the Consultant aims to develop the Pool Management Framework, Pool Management System Analysis Report, and respective Capacity Building Activities as per the Workplan. FMFB will be responsible for the technical implementation into its Core Banking System.

All communication as well as written documentation / deliverables will be in English.

3.2.2. Final outputs and Review Procedure

Deliverable	Estimated Week of submission	Percentage of Contract Value
Deliverable 1: Final Pool Management Framework	Week 10	40%
Deliverable 2: Final Pool Management System Analysis Report	Week 11	20%
Deliverable 3: Regulatory Compliance Report	Week 13	15%
Deliverable 4: Training material for on-site training	Week 16	10%
Deliverable 5: Training Material on Pool Management	Week 18-19	15%
Total Percentage of Payment		100%

It is important to note that final payments schedule should be agreed upon in the contract and is not necessarily identical to the distribution in the table above.

The Consultant will report to ACGF's TA Analyst as well as to the designated contact of the PI.

The Consultant will be responsible for the timely delivery of activities and deliverables. The Consultant 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 Consultant has given notice in writing or via email of a deliverable being ready for acceptance. Acceptance of a deliverable will be communicated in writing by ACGF's TA Analyst. The Consultant should be available to hold discussions and present deliverables over conference call with ACGF/SCSA and the assignment beneficiary, when necessary.

Deliverables will be reviewed by the Review Committee comprising the following ACGF (and PI) staff:

- ACGF, Head of TA
- ACGF, TA Analyst
- FMFB, Finance Department
- FMFB, Operations and Treasury Department

3.2.3. Logistics

It is preferred that the Consultant is available to conduct the training sessions in Phase 4 on-site in Kabul. If travel to Kabul is not possible due to international travel restrictions or security concerns, training shall be conducted online. Any on-site work will be conducted with support from ACGF and SCSA.

If training will be conducted on-site, it will take place in Kabul. If FMFB wishes staff members from other branches to participate, this shall be on the sole responsibility and expenses of FMFB.

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

Any on-site work of the Consultant will be conducted with logistical support from SCSA and in collaboration with the relevant officers and managers of the FMFB. All communication, as well as written documentation/deliverables, will be in English.

4. Application of Consultants

ACGF's evaluation process is aligned with WB Procurement Regulations, 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 Expression of Interest. The Expression of Interest will be the basis for selecting the Consultant that will receive a Request for Proposal (RfP). The RfP will be the basis for negotiation and ultimately signing the contract with the Consultant.

The Consultant may request a clarification of any part of the Terms of References ("ToR") timeline to do so will be shared with the Request for Proposal on the next stage of the procurement.

4.1. The short-listing criteria are:

- a) The Consultant should be a registered legal entity and should have been in business for the last 5 years in providing Consultancy Services. (The consultant is required to provide the Copy Certificate of Incorporation issued by relevant authority in country of establishment).
- b) The consultant shall demonstrate proven experience by providing information on a minimum of 2 completed contracts with the value of USD 65,320 having executed during last 5 years of similar nature indicating the duration, value, and years of performance, which should showcase the expertise/ strength of the consultant for undertaking such assignments.

4.2. Guidance Note for Joint Venture and Sub-Consultants:

The requirements for consultants who intends to associate with other firm(s) in the form of a Joint Venture (JV) or Consortium or a sub-consultancy to enhance their qualifications are indicated as under:

- i. The lead partner is required to be identified clearly and state the composition and nature of their association (JV/ sub-consultant) in their EOI.
- ii. In case of a sub-consultancy, the lead partner **shall provide valid reason for proposing a sub-consultant.**

ACGF reserves the right to decide to not implement the assignment or to terminate the procurement process if it is deemed appropriate.

4.3. Key Staff Qualification of Consultant

The Consultant is expected to provide a pool of experts that provide the necessary project skills as described in this section. The expert pool for this assignment shall comprise a minimum of 2 experts.

1- Required Team Leader profile (Pool Management Expert):

- (1) Master's degree in subject related to the field of economics, finance, banking, or business administration.
- (2) Five years of experience and in-depth knowledge of Micro Finance Institutions and banking operations.
- (3) Expertise in establishing and developing policies and procedures on Pool Management Framework and Profit Distribution.

2- Required IT and Accounting System Expert profile:

- (1) Bachelor's degree in subject related to the field of accounting, finance, banking, business administration, or IT.
- (2) Two years of experience in integrating Pool Management Systems to CBS.

Further qualifications that will be an asset and can be provided by either member of the expert pool:

- (1) Familiarity with Afghan financial sector and SME lending
- (2) Expertise in developing training material and conducting training in the context of Financial Institutions
- (3) Expertise in and in-depth Knowledge of Sharia-compliant accounting
- (4) In-depth knowledge experience in dealing with Sharia boards and regulatory authorities.
- (5) Experience in supporting financial institutions in their conversion to Sharia compliance.

The qualification of the experts shall be supported with a CV and references to relevant past assignments including (a) assignment synopsis, (b) duration and period, (c) client name and contact details, (d) relevance for underlying assignment and (e) expert's respective roles, responsibilities, and LoE.

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

4.4. Required Items for Application

In response to the ToR, the Consultant must provide company profile details outlined in the Request of Expression of Interest (REoI) letter.

The Consultant is also 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.