

## TERMS OF REFERENCE

### INCLUSIVE DIGITAL FINANCIAL SERVICES

#### 1. Introduction

The barriers to financial inclusion through traditional banking are variable and complex. Among them is the inability of Africa's central banks to keep up with financial innovations that can reach the most vulnerable people. Regulatory reform is also required—and should extend to the telecommunications sector, which has become a vital financial services provider to millions of people. The only tangible solution to extend services is through mobile innovation, which offers the affordable services that banks fail to deliver or in the case of smaller banks cannot afford to deliver.

In fragile communities and states, the potential impact of leveraging digital solutions to reach marginalised, rural and the underbanked is tremendous. While mobile money solutions have been around for some time, they often focus on urban areas or provide an alternative solution for populations that already have access to financial services.

While Innovation is allowing Africans to move up the “financial services value chain.” From mobile payments, customers in Africa are gaining access to mobile banking and other services as they open saving accounts, take out loans, purchase insurance, and invest in Government securities or in stock markets with a few touches of their mobile phone. In fragile communities and states, there is still much work to do.

As a result, FSDA's Fragile Communities and States (FCAS) team seeks to contract a Consultant (“the Consultant”) to develop programme frameworks that focus on the increasing financial services through financial service provider (FSP) intermediaries that have the potential to reach these populations through digital platforms.

#### 2. Project Background

##### 2.1. About FSD Africa

FSD Africa is a specialist development agency working to reduce poverty by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

We work to reduce poverty by strengthening Africa's financial markets.

Established in 2012 and supported by UK aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across sub-Saharan Africa. We work to reduce poverty through a 'market systems development' approach, which means we aim to address the structural, underlying causes of poverty by improving how financial market systems function.

We believe that investing in building a financial system that is transparent, stable and accessible creates the conditions for a fair and sustainable future, where inequality is reduced, corruption is tackled, and where individuals, businesses and governments alike are able to prepare for future challenges, from climate change to political instability.

From our headquarters in Nairobi, our team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for

everyone. Depending on the project, we can provide a combination of grants, investment capital, market insights or technical assistance to ensure we achieve our objectives.

We focus our work where the need is greatest, and where we believe the potential for impact is the most significant.

Please find more details about FSD Africa on our website at [www.fsdafrica.org](http://www.fsdafrica.org).

## **2.2. About FSD Africa's Fragile Communities and States (FCAS) Unit**

Since 2017, FSD Africa has been working on a fragile states regional programme of work. Until now, the programme has focused on DRC, Sierra Leone and Zimbabwe at the country level with a thematic focus on refugees. This work has been driven by in-country resources, technical experts with support from Nairobi, where FSD Africa's head office is located. The articulation of what fragility means in the development context is varied with no standard qualitative or quantitative definition in existence. FSD Africa's strategic 2020-2025 fragility focus has evolved beyond fragile and conflict-affected states and is now anchored on the 'leave no one behind' agenda.

Leaving no one behind requires ensuring that this agenda becomes the rule rather than the exception. Achieving this requires the transformation of deeply rooted systems, economic and political systems, governance structures and business models at all levels, from local to regional and global. Additionally, extreme inequality persists in multiple dimensions within and between fragile countries. It often translates into an inequality in decision-making. Segments of the population that are typically excluded from meaningful participation in decision-making are those already left behind in material well-being, financial services, education, health and other factors, those that are geographically isolated.

Within FSD Africa's new delivery mechanism, the Fragile Communities and States (FCAS) unit seeks to support the 'leaving no one behind' agenda, through dedicated resources that develop:

- i. thematic initiatives that have the potential to positively impact marginalised populations, including the urban poor, nomadic pastoralists, slum dwellers and the highly vulnerable;
- ii. refugee/IDP and community-focused programmes to improve financial inclusion to services currently unavailable to them; and
- iii. advocacy to motivate fragility stakeholders to support activities that focus on the leave no one behind agenda.

The pivot from a 'fragile states' regional focus to 'fragile communities and states' thematic focus will enable FSD Africa to effectively impact the marginalised who are often excluded from the benefits of mainstream development initiatives.

## **2.3. About FSD Africa III (2020-25) and FSD 2.0**

FSD Africa III (2020-25) is the organisation's third strategic plan. The UK government's Department for International Development (DFID) approved a new funding package to support its delivery in December 2019. FSD2.0 is the name given to the new guiding vision adopted by the Financial Sector Deepening (FSD) Network in 2019. The name suggests, first, that the Network remains focused on its work in the financial sector; but secondly, that its focus has evolved from that in its first era ("FSD1.0"). Under FSD2.0, the FSD Network builds on the experience and evidence of the first era which points to the need to broaden the scope beyond financial inclusion while simultaneously focusing on how finance can contribute to unlocking developmental aims.

Both FSD Africa III and FSD 2.0 recognise that financial sector development in Africa faces new challenges, and that a fresh approach is required if we're to lock in and accelerate the gains of the previous cycle. This fresh approach has three main pivots: geographic, operational and developmental.

#### *A new geography*

The FSD Network has a strong programming footprint of over 200 staff in 8 country offices. And despite FSD Africa's regional reach into a total of 28 countries, even greater reach is required to fulfil a truly pan-African approach, especially in the fragile, marginalised states and communities where the need is often greatest.

#### *A new delivery mechanism*

FSDs have also self-organised to enable joint decision-making and programming via a new FSD Network Council structure that will complement local Boards. A new FSD Network Directorate, located at FSD Africa will manage this new delivery mechanism.

#### *A new impact narrative*

To strengthen FSD Africa and the wider FSD Network's impact, existing theories of change will be recast to prioritise programming that focusses on jobs and incomes, access to basic services and goods, and sustainability. This shift will enable FSDs to focus on financial market building that tackles pressing development challenges in Africa (e.g. jobless growth, homelessness, climate change) as well as the global goals (e.g. the United Nation's Sustainable Development Goals). In doing so, the 'line of sight' between FSD programming and poverty reduction will become clearer.

Finance has never been an end in itself. As a result, there's a new consensus that FSD work will become systematically more sector specific. With their partners, FSDs will therefore work more intensively at the interface where finance meets important real and social sectors such as climate, housing, agriculture, manufacturing, health etc.

Finally, FSD Africa's initial, strong progress in the long-term finance space will also be replicated by other FSDs, enabling finance to play a role in poverty reduction beyond the household and in economic transformation processes.

This is about finance that benefits poor people, not just finance for the poor.

### **3. Project context - Background on Digital Financial Services and FinTech**

#### FinTech

New technologies and business models are upending long-established markets across virtually every major sector, including the financial services sector. Traditional retail banks are joined by a growing number of digital partners and other competitors. One example includes Financial Technology ("FinTech's") companies that can provide front end services to digitise traditional financial service provider services as well as act as a payment gateway amongst other things. The evolution of the progression of developing financial inclusion solutions can be summarised as follows:

- Financial Inclusion 1.0 refers to the late 1970s when microcredit developed into a proof of concept that poor and low-income households are bankable.
- Microfinance institutions became scalable and commercially viable through information technology and back office automation in the 1990s, defined as Financial Inclusion 2.0.

- Financial Inclusion 3.0 means that we keep our focus on the low-income segment, the under banked and micro, small-and medium-sized enterprises (MSMEs), with fintech playing an instrumental part in increasing outreach exponentially.

Today, the industry cites that investing in fintech is Financial Inclusion 3.0.

#### Digital Financial Services (DFS)

Broadly, DFS solutions entail a broad range of financial products accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. The concept includes mobile financial services (MFS). The term “digital channels” includes the Internet, mobile phones (both smartphones and feature phones), ATMs, point of sale (POS) terminals, near-field communication (NFC)-enabled devices, chips, electronically enabled cards, biometric devices, tablets, and any other digital system. DFS models usually employ agents and may leverage networks of third-party intermediaries to improve accessibility and lower delivery costs.

One of the main challenges is to convince financial services providers that the FCAS market, can be profitable. The initial CAPEX for digitisation, can be a barrier for these actors to provide digital services to their clients. Key to this exercise will be to catalyse FSPs to this population demographic, through the development of evidence-based business models that demonstrate financial sustainability.

It can be argued that digital financial services and sustainability are the two major drivers of change in the financial sector. There isn't a financial institution that's not involved in it. There isn't a start-up that does not derive its right to exist from it. What is striking about this, however, is that the combination is rare. Fintech offers the prospect of accelerating the integration of the financial and real economy, enhancing opportunities for shaping greater decentralisation in the transition to sustainable development.

#### **4. Project scope and objectives**

Financial intermediation can play an essential role in promoting technological progress in this area it is expected that a concerted focus on digitising Financial Service Providers (FSPs) that serve marginalised populations. Because of this FSD Africa's Fragile Communities and States (FCAS) programme seeks to develop an intervention to bring digital financial service providers and financial service providers together to meet our 'leave no one behind' agenda.

The scope of work will commence with an inception meeting and report to agree on approach and develop a joint understanding of the consultancy.

Inception report summarising the proposed approach must be submitted within 15 days after signing the contract. The Inception Report should present comments on the TOR, a methodology, strengths and limitations, a clear timeline (timelines provided are indicative and to agree at the inception meeting), proposed resources necessary to accomplish the assignment. Some other areas to be covered are the evaluation objectives, draft table of contents, the theory of change, the proposed methodology, a pilot design matrix, a stakeholder analysis, as well as a list of potential interviewees and desk research resources to be reviewed against the following core objectives:

##### Objective 1: Market Segmentation & Mapping

Understanding what markets are best suited for a pilot and post consultation, conduct a market sizing exercise across specific FCAS countries and regions.

- Identify markets that have community based FSPs that could potentially reach target community beneficiaries through community savings programmes or similar initiatives
- Identify markets that meet the basic requirements for engagement technology infrastructure perspective as well as has a critical mass of rural banks or FSPs that can reach marginalised populations.
- Summarise findings in heat map.

### Objective 2: Programme Design

Develop programme parameters, based on mapping to define activities, success factors, KPIs and feasibility. Programme should investigate supply and demand side parameters, including but not limited to financial literacy, gender and any sector specific opportunities (e.g. agribusiness).

- Develop 2-3 potential programme frameworks that may include advisory/technical assistance, investment and/or blended finance (from supply and demand perspective). These frameworks should identify risks, challenges and opportunities with an indicative reach metric.
- Framework should include summary of lessons learned from similar programmes in Africa or globally that seek to leverage digital technology for financial inclusion through sustainable business models.
- Framework should also provide a SWOT for each stakeholder group, including regulation (government).

### Key to the programme design will be the selection of partners

Develop a framework to select FSPs and DFS providers that will participate in a pilot programme, through the development of criteria that will include, but not be limited to, customer base, technology solution and potential reach to marginalised populations.

- Identify key programme stakeholders' groups
- List of potential DFS providers in FSPs in respective market.
- List of potential implementing partners (funding, technical, training, etc), indicating their potential role.
- List of potential partners not present in target market that could be encouraged to participate (many fragile communities exist in areas where there may not be a developed local technical partner).

### Objective 3: Results Measurement & Knowledge Management

Develop a framework to capture knowledge and lessons learned, through global best practices, MRM frameworks and results of the pilot.

- What KPIs and measurement indicators should FSD Africa consider developing a baseline that can be practically measured.
- What are the tactical and strategic targets to measure outcomes and impact as it relates to FSD Africa's strategic goals? Additionally, should be the overarching goal of the engagement (# of FSPs digitised? reach? FinTech capacity building? # of transactions? value of transactions? Etc.)
- Development of a thought piece that could be used to replicate programme.

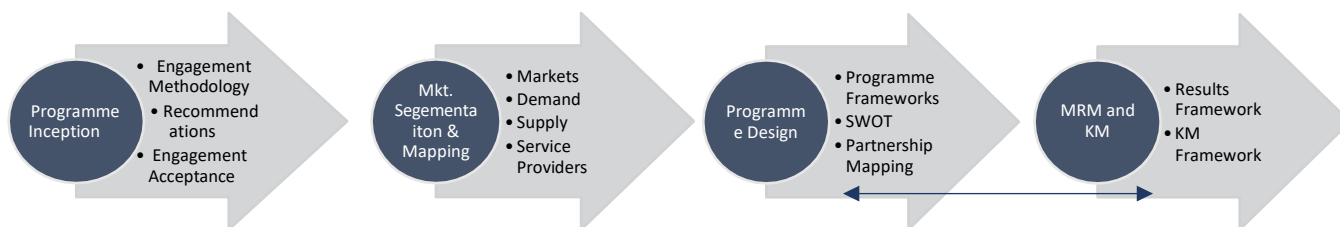
The real sector, financial sector, government and partnerships as critical areas of focus to engage fragile communities. With this in mind, the consultant should take into consideration the following potential roles of these actors:

## **5. Links to other FSD Africa teams**

The consultant will work primarily with the FCAS team, reporting to the Associate Director - FCAS who will engage the relevant internal stakeholders (pillars, communications and results measurement, etc.) as required. Specific focal points will be identified at the inception meeting.

## 6. Project Outputs & Payment Milestones

- Inception Report (15%)
- Objective 1: Market Segmentation and Mapping (15%)
- Objective 2: Programme Design Draft (30%) Programme Design Final (20%)
- Objective 3: Knowledge Management (20%)



## 7. Invitation to Submit Proposal

FSDA is inviting a proposal from a suitably qualified consultants/consultancy firm.

Your proposal should contain:

- CVs (maximum 3 sides of A4 paper each) of key individuals, tailored to the assignment
- Outline of team structure, including roles and responsibilities of team members
- A summary of your relevant experience for the assignment
- A short description of your understanding of the role of the Consultant and the approach to be used as outlined in these Terms of Reference
- A description of how you intend to fulfil the Services within the suggested timeline and confirmation of your ability to meet the timelines
- An itemised budget for both professional fees and reimbursable expenses, including fee rates, number of days and a breakdown of expenses.

Your proposal, which should not exceed 10 pages (excluding annexures), should be sent by email to FSD Africa at [bids@fsdafrica.org](mailto:bids@fsdafrica.org) by 1200 noon EAT on 14 May 2020.

## 8. Basis of award

FSDA will award a contract to the consultant based on the following criteria:

Mandatory requirements
Firm/individuals must be able to demonstrate conversance with the themes of fintech and digital financial services, with at least 5 years' experience
Firm/individuals must be able to demonstrate at least 5 years' experience in developing complex strategies in the context of FSPs and digital FSPs serving marginalised populations.
Must have the capacity to engage intensively with FSD Africa, FSD Africa Investments and their advisors

Assessment criteria	Weighting (%)
Relevant, demonstrated experience and capacity of individuals in this area	30%
Understanding/interpretation of the task set out in the TORs / Content, quality and originality of proposal	30%
Demonstrated experience working on inclusive finance development in marginalised communities or fragile states in sub-Saharan Africa	20%
Fee basis and total costs  $FS = 20\% \times LB/BP$ where:  FS = is the financial score LB = is the lowest bid quoted BP = is the bid of the proposal under consideration.  The lowest bid quoted will be allocated the maximum score of 20%. <b>Fee quoted must be inclusive of applicable withholding tax</b>	20%
<b>Total</b>	<b>100</b>

## 9. Contact

Questions or comments in respect of these terms of reference should be directed by email to: [bids@fsdafrica.org](mailto:bids@fsdafrica.org) and be received no later than **1200 EAT on 24 April 2020**. Responses and clarifications will be provided **1200 EAT on 29 April 2020** through the same advertisement channels

## 10. Applicable Taxes

As per Kenya's tax law, FSD Africa will pay the Consultant after withholding the appropriate taxes at the applicable rate between Kenya and the Consultant's country of tax residence, considering any tax treaties in force. It is the responsibility of the Consultant to keep themselves apprised of these applicable taxes. The below table however provides guidance on the applicable rates as per tax regimes

Country	WHT Rate
Kenya	5%
United Kingdom	12.5%
Canada	15%
Germany	15%
Zambia	15%
India	10%
Non-resident rate for citizens of EAC member countries (member countries attached)	15%
All other countries	20%

