



## TERMS OF REFERENCE (TOR)

### GENERAL INFORMATION

**Title:** Call for proposals for Financial Intermediaries to identify and adapt/refine financial services and products to meet the needs of micro small and medium enterprises, specifically informal enterprises/entrepreneurs in Sierra Leone.

**Institutions:** Financial Intermerderies  
**Supervisor:** UNDP Sustainable Local and Economic Development Cluster

**Application Deadline:** 27<sup>th</sup> March 2023

**Duration of the Activity:** 4 weeks

**Location:** Sierra Leone

### BACKGROUND

The United Nations Development Programme (UNDP) in partnership with the Organization of African, Caribbean and Pacific States (OACPS) and with financial support from European Union (EU) has designed a four-year (2022-2025) project entitled Supporting Informal Enterprises Transition Towards Sustainable Growth and Formalization in the African, Caribbean and Pacific Regions to unlock the potential of the informal economy for inclusive growth and transformation. Lack of an enabling business environment as well as underdeveloped business management and financial skills impairs the productivity of MSMEs and limits their ability to attract capital. One crucial obstacle informal enterprises face in accessing capital is the inadequacy of the financial services offered by the established financial sector actors.

The project is implemented by UNDP in partnership with the International Labor Organization (ILO) in the following target countries: Mozambique, Serra Leone, and Solomon Islands. The project aims to develop and support implementation of favourable regulatory conditions and relevant incentives for businesses to formalize. The project also addresses capacity constraints and facilitates the provision of innovative products and services for informal enterprises. These enterprises will be trained and strengthened to address non-regulatory bottlenecks pertaining to a lack of awareness and capacity in business skills, financial and digital literacy to adapt available tools to improve productivity and enhance access to finance and markets. At the level of key intermediaries in the informal sector ecosystem, in particular aggregators (start-ups accelerators and incubators) and financial intermediaries create favourable conditions.

The project also aims to support the refinement of new and existing financial services and products to meet the needs of micro small and medium enterprises specifically informal enterprises/entrepreneurs. This includes providing technical and financial support to facilitate innovative financial services and products. This project will contribute to the implementation of the National Financial Inclusion Strategy (2022-2026), drawing lessons from ongoing and past initiatives like the MSME's lending facility MUNAFA fund which is managed by SMEDA and implemented through local Financial Service Providers, mainly microfinance institutions.

In Sierra Leone, the informal sector remains pivotal in socio-economic development. The sector plays a dominant role in the country's economy, as it accounts for about 90 percent of total employment. It also serves as a shock absorber in periods of economic crises, playing a critical labour market stabilization role and addressing imbalances in the market for general goods and services in times of recessions.

The informal sector is dominated by activities from fisheries, food and agricultural processing, light manufacturing, trade, and tourism. However, generally entrenched attributes of the informal sector undermine its potential to significantly contribute to taxation, economic growth, and transformation. These include low income among informal enterprises, low productivity, low capital investments, limited access to financial services, poor working conditions, high vulnerability to external shocks, and low levels of education and business skills.

## **RATIONALE FOR THE CALL**

Access to finance is an important element in supporting the growth and formalization of informal enterprises. It supports businesses to improve productivity, become more efficient and competitive and comply with regulations and laws, access new markets, and expand their operations, which can lead to increased profits and growth

Financial services in Sierra Leone are fragmented, small in scale and largely informal, characterised by volatility in individual and aggregate income levels. The financial market lacks depth and breadth in terms of reach and products offered to the clients and interest spreads and banking industry margins are high. Moreover, the COVID-19 pandemic and the current economic crisis due to the Russian aggression in Ukraine have affected entrepreneurs' ability to meet loan repayments resulting in relatively high non-performing loans in some sectors. This coupled with the lack of knowledge, high unit costs and the perceived higher level of risks associated with MSMEs has affected financial intermediaries' capital adequacy and profitability and further reduced their risk appetite to lend to the MSMEs and informal enterprises.

On the other hand, there is evidence that the financial intermediaries are interested in diversifying their portfolios, however, some of them lack sufficient management and technical capacity to design better-tailored made financial products adapted to the needs of specific sectors such as agriculture where a significant number of informal companies are operating. This will require a deliberate strategy to identify and adapt financial service products offer in terms of products, delivery models and management processes among others.

Given the low supply of financial services in the country, and the high demand for financial services from enterprises, financial intermediaries hold the leverage to influence business practices. Therefore, commercial banks, insurers, credit unions, microfinance institutions, community banks and Financial Services Associations are potential financial intermediaries for promoting the formalization of informal enterprises and improving access to finance in rural areas.

At the same time, supporting formalization has the potential to enhance financial institutions' business performance: through a better performance of the MSMEs as well the risk and business management perspective. A formalised enterprise is more transparent and hence is a less risky borrower, which helps reduce operating costs and identify future earning opportunities more accurately. Financial institutions with a social agenda, or a double-bottom-line approach, can additionally enhance their social impact by promoting formalization

Therefore, there is a need to support the financial intermediaries to cushion their capacity to efficiently serve these under-served markets through improving their management and technical skills and managing innovative processes such as a partnership with Fintech firms, product development, partnerships with value chain actors to develop, pilot, roll out financial and non-financial services to reach these untapped markets in the informal economy.

UNDP and partners recognise the high demand for financial services among the informal actors for savings, credit, insurance, and digital services. However, the current products and services are either unaffordable, out of reach or not aligned with their needs. On the other hand, financial intermediaries do recognize the need to provide alternative products and services that suit the needs of informal enterprises.

Financial intermediaries, placed at the core of economic activities, are recognized as crucial members of the MSMEs ecosystem. As such, they can play an important role in supporting enterprise development while benefitting from the resulting reduction of the financial risks associated with the MSME's client portfolio and the competitive advantages of building better client knowledge and lasting relationships. Therefore, in addition, the ILO plans to establish partnerships with financial institutions aiming at promoting enterprise development by means of the provision of relevant business skills development, digital and financial literacy capacity building to the target groups of the project

## **THE CALL FOR PROPOSALS**

UNDP, in collaboration with ILO, shall support financial intermediaries to identify and adopt existing financial products/services targeting informal enterprises/entrepreneurs, in order to incentivize formalization. Through this call, UNDP would like to strengthen the capacities of financial intermediaries to adapt innovative financial products and solutions that meet the financial needs of MSMEs, while fostering the way to formality. This may include technical assistance to support the product development process, marketing of the products, and management to ensure that appropriate products meet the needs of the market and provide pathways to the formality of their clients.

As such, UNDP in Sierra Leone is inviting financial intermediaries (commercial banks, insurers, credit unions, microfinance institutions, Savings and Credit cooperatives, community banks, Financial Services Associations and insurance companies, to submit proposals describing their suggested products/services targeting informal enterprises/entrepreneurs. UNDP shall provide technical support in capacity building to up to 8 Financial Intermediaries in the country.

In addition, ILO will further support the identified financial institutions in piloting and rolling out the developed products and estimating the impacts achieved.

## **OBJECTIVES OF THE CALL FOR PROPOSAL**

The specific objectives of the call for proposals include: -

- a) Improve the capacity of financial intermediaries including banks, microfinance institutions, Savings and Credit cooperatives, community banks, and insurance companies, to provide appropriate financial products and services to informal enterprises and entrepreneurs.
- b) Promote access and usage of financial services for promoting the formalization of the economy and better responding to the financial needs of the private sector.,

## SELECTION CRITERIA

This is a call for proposals (expression of interest) based on which UNDP will identify up to 8 proposals that will qualify for technical support.

### Key areas for consideration for financial intermediaries for this call include: -

- a. Registered financial intermediaries including banks, microfinance institutions, Savings and Credit cooperatives, community banks, insurance companies, etc operating in the country for a minimum of three years.
- b. Feasibility of financial products /services to be refined and adapted to respond better to the market needs and promoting pathways to the formality of enterprises
- c. Institutional capacity to develop, implement and scale up the products
- d. Compliance to call requirement

### An outline of the proposal is provided below.

Profile of the proposer		
<ul style="list-style-type: none"> <li>• Name:</li> <li>• Location:</li> <li>• Registration Date and regulating authority:</li> </ul>	<p>.....</p> <p>.....</p> <p>.....</p>	
Description of the organization, its business segments and target clients:		
Description of the product (existing requiring scale up or to be implemented), including product, features expected to contribute to the formalization of informal enterprises		
Type/category of the suggested financial product (savings, credit, insurance/another type)		
Why your organization needs support and the type of support required;		
Experience of the financial intermediary supporting MSMEs and informal enterprises and available capacity		
Existing or expected linkages with enterprise formalization initiatives/incentive mechanisms implemented in the country		
Sustainability of the proposed financial service/product adapted to serve the needs of the informal enterprises/entrepreneurs		
Expected impact of the financial product		
Target customers/beneficiaries of the financial product (services), number, disaggregated by Gender		
Estimated timeline to finalize the product refinement		
Partners in product development and market deployment (if any)		
Organization's existing offering of non-financial services as well as BDS supporting financial inclusion and financial education, MSME business and digital skills development (if any)		
Organization's interest in providing business development and financial literacy capacity building to its clientele including the MSMEs (if any)		

## CRITERIA FOR SELECTING THE PROPOSAL

UNDP will set up an evaluation committee to review all proposals received using UNDP's principles of fairness and integrity.

The following criteria will guide the selection process:

- Company's performance/track record and experience working with MSMEs and informal enterprises (30%)
- Potential product scalability, catalytic effect, (30%)
- Impact of the proposed financial product and its feasibility (40%)

- **Detailed scoring matrix and points will be assigned as follows:**

Proposal Evaluation Form		Points	Score Weight
1	• Company's performance/track record and experience working with MSMEs:	100	10%
	• Experience in the industry, credibility, reliability of the company,	100	10%
	• Experience in product development and working with MSMEs	100	10%
<b>Sub Total</b>		300	30%
2	• Potential product scalability, catalytic effect	100	10%
	• The commercial viability of the product	100	10%
	• Catalytic effect on the product	100	10%
<b>Sub Total</b>		300	30%
3	• Feasibility of the proposed financial product	100	10%
	• Effectiveness of the solution to solve the financial access gaps	100	10%
	• Potential contribution to enterprise formalization and growth	100	10%
	• Expected impact of the financial product on beneficiaries of the services,	100	10%
<b>Sub Total</b>		400	40%
<b>TOTAL</b>		<b>1,000</b>	<b>100%</b>

### Timing and Contacts

- Proposals should be submitted via email to [procure.sle@undp.org](mailto:procure.sle@undp.org) no later than **27<sup>th</sup> March 2023**
- Queries to this call for proposals can be submitted via email to [procure.sle@undp.org](mailto:procure.sle@undp.org) before **27<sup>th</sup> March 2023**