



Terms of Reference MSE Fintech Project

About CGAP

The Consultative Group to Assist the Poor (CGAP) is a global multi-donor partnership dedicated to advancing financial inclusion for the poor. CGAP plays a unique role as a donor-coordination mechanism for funders working to improve the lives of poor people through the power of financial inclusion, providing a valuable platform for information, dialogue and reflection to advance progress towards a collective vision. Using action-oriented research, CGAP tests, learns and disseminates knowledge intended to help build inclusive and responsible financial systems that move people out of poverty, protect their assets and advance broader global development goals. CGAP leverages its relationships with businesses, governments and the non-profit sector to share insights, mitigate risks and protect customers, and help others bring solutions to scale. CGAP serves as a global advocate for the financial inclusion community by collaborating with strategic institutions that influence policy and market development and providing evidence-based research and practical lessons that guide their work.

CGAP is supported by more than 30 partners including bilateral and multilateral development agencies, development finance institutions and private foundations committed to advancing financial access for the poor. CGAP is housed in and administered by the World Bank. To learn more about CGAP, visit www.cgap.org.

Why Partner with CGAP

CGAP is globally renowned for its research furthering financial inclusion. As part of the World Bank Group and extensive network of supporting international organizations, it has developed a significant platform for delivering new insights, advocating innovative approaches and influencing donors and policy makers. Partnering with CGAP will enable your firm to be part of this platform which reaches over 500.000 unique users every year, allowing your brand to be associated with innovation that matters.

CGAP has a remarkable pool of talented staff. You will be working with a project lead, who is directly supported by a project team and a wider framework within CGAP's governance structure. CGAP will function as a strategic thought partner, contributing deep financial inclusion expertise as well as business and operational insights. Further, CGAP's strong reputation and convening power will also facilitate the selection of, and cooperation with third party technical service providers.

Your firm will be joined by five other firms in this project, from different countries but with the same goal: furthering financial inclusion through innovative business models and partnerships. This project will not only document lessons learnt but will bring the firms together to share lessons and learn from each other in a more intimate setting.

CGAP will not disclose any information without the consent of the pilot participants and would not publish or disclose sensitive competitive information.

About the MSE Fintech Project

According to a 2019 CGAP research, there are nearly 500 million Micro and Small Enterprise (MSE) in emerging and developing economies. Access to financial services is one of the key factors in the sustainability, growth, and resilience of MSEs, which can translate into greater incomes and job security for low-income households. The microfinance sector has grown to serve 140 million low-income clients, with an outstanding portfolio of US\$124 billion in 2018. Yet there remains a nearly US\$5 trillion MSE finance gap.



In 2019 CGAP launched its Livelihoods and Financial Services Project, which focuses on specific segments of low-income people to understand the nature of their livelihoods and what types of financial services, business models and ecosystem conditions support their income generation. As part of the overarching Livelihoods and Financial Services project, the MSE Fintech project focuses on the opportunities that the emerging fintech sector brings to improve MSE finance in the digital age. We believe that new and emerging technology enabled business models can usher in a new revolution in MSE finance, helping to further close the MSE financing gap.

MSE Fintech Project Rationale

Advances in technology, such as mobile connectivity, big data analytics, artificial intelligence (AI), machine learning (ML) and application programming interfaces (APIs), have disrupted the financial services industry, resulting in the emergence of new business models and digital financial products for MSEs. These technological advances show promise in overcoming traditional supply-side barriers to serving excluded MSEs. MSEs can also experiencing significant benefits through increased access to affordable, responsible, and tailored credit products.

MSMEs are experiencing significant benefits from transforming and digitizing operations, such as lower costs, new customer acquisition channels and hence improved revenues, and accessing alternative forms of financing, streamlined payments, or obtaining new forms of insurance coverage.

Digitizing MSME transactions and operations, creates small digital trails and alternative data which is being utilized to evaluate the credit risk of micro and small businesses and enabling open access to alternative sources of financing. Given the large MSE unmet credit demand of US\$5 trillion in EMDCs, this project will focus on digital lending solutions.

The COVID-19 health and economic shock has further accentuated some of the trends, creating greater momentum to digitalize transactions and conducting financial operations online.

The project has completed initial desk research which focused on different types of emerging technology enabled business models that can sustainably reach the MSE sector, and extensive and quantitative/ qualitative interviews trying to understand distinguishing factors affecting livelihoods and income generation across key MSE segments. Going forward research will focus on the “micro” end of the MSME spectrum of firm sizes, where we continue to see the greatest need and potential for impact among low-income households. Female led MSEs, which typically face unique challenges, will also be a focus area of this project

About the Fintech Pilots

We will now launch a series of pilots with firms to test innovative and scalable business models that have the potential to expand financial inclusion through breaking down existing barriers, and provide responsible digital credit to previously excluded or underserved MSEs. We envision such models to be (1) Embedded Finance business models due to their proliferation, potential for reaching underserved MSEs, and the lack of understanding of these models in the financial inclusion community, and (2) Data Driven Lending models in line with the increasing digitization trends. Firms using other innovative impactful business models will also be taken into consideration.

The below five points explain the pilot objectives in generic terms. The applicant is expected to elaborate in detail on the EoI Form, how the proposed pilot fits within the below objectives.

1. Innovation: The pilots should test new technology enabled business models or products, that can push the current barriers of financial inclusion in a scalable manner.
2. MSE Target Segment: For the purpose of this project, the target group is defined as MSEs with less than, or in the range of, five full time employees, and that are currently underserved or excluded from responsible and affordable business loans. Within this target group we are particularly (but not exclusively) interested in reaching women-owned businesses.
3. Intended Impact on MSEs: Improving financial services for the target group entails measurable changes generating an increased access to affordable, responsible, and tailored credit products for the MSE. This can be measured through, for example, lower cost of credit, loan terms and conditions that are tailored to the needs of the MSE, product diversification and increased accessibility, client centric product design increasing net promoter score, enforceable recourse mechanisms increasing trust, etc.
4. Scalability: With scalability we are referring to the ability of the business model to increase the firm's client reach in a significant manner once the business model is tested and the right product fit found. Expansion can materialize in existing as well as new markets.
5. Type of provider: the type of firm that can qualify for these pilot projects can be any firm that offers technology enabled financial or non-financial services, and wants to improve or introduce credit products to underserved and excluded MSE segments.

CGAP will provide financial support for this project which can be used towards either: (1) technical assistance delivered through an external expert or group of experts jointly selected by the firm and CGAP to support the development of the new products or processes; or 2) project delivery by a dedicated team from within the firm, which will take the lead on developing and implementing the pilot.

While CGAP will cover the costs of the technical support up to a maximum agreed budget, it is expected that the firm will contribute in-kind resources. CGAP and firm specific contributions, as well as project milestones will be laid out in a mutually agreed project document at the start of the project. The budget can be used for developing new products, services or processes, or modifying existing ones to better serve the target group. The CGAP budget cannot be used for capital expenditure.

Additionally, the project will involve client research at two stages. The focus of the initial research will be on whether the envisioned offering will create value for the target segment and on how the firm can serve the target segment better. The research after the new offering has been launched will measure if goals were achieved in terms of MSE impact. CGAP has hired an internationally renowned company to execute this work, which will collaborate with the firm in designing client surveys.

The total duration of the project, from design to successful implementation should be completed in under twelve months, leaving at least three months for initial monitoring of results and possible modifications. A detailed plan and budget will be put in place outlining an end goal for the project with a related work plan, and monthly/ quarterly success criteria and KPIs. This plan shall also outline the elements that need support as part of the CGAP project and what efforts (and commitments) are required from the firm. A member of the CGAP team, or an independent appointed by CGAP will lead the CGAP-supported elements of the project and form part of the project steering group together with the counterpart at the firm.



It is assumed that the firm possess the ability and infrastructure to deliver the product/ service. CGAP's role would be 1) as a strategic thought partner, bringing broad financial inclusion expertise as well as business and operational insights, and extracting lessons from the partnership; and 2) to fund additional expertise to support, enhance, and accelerate the final design and delivery of the product. If the business model requires the firm to cooperate with other entities when serving the target group, the nature of this cooperation should be clearly mentioned and possibly CGAP will require confirmation from the partner(s) stating their support for the intended program.

Firm Partners and Selection Criteria

CGAP is looking for firms based in emerging markets or developing countries that are already serving the target group as described above or have sincere intentions and a documented plan for doing so. Serving, or intending to serve, the target group can manifest itself in multiple ways:

- Already serving the target group with credit products and want to complement this with other financial or non-financial products, thereby improving the quality and diversity of services offered.
- Already serving the target group with other financial or non-financial services and intend to add credit to the service offering.
- Already servicing the target group with credit products but desire a more segmented approach to effectively target specific sub-segments defined by gender, location, age, etc.
- Servicing the middle and higher MSE segment with credit products and want to capture the lower end (the target group) as well.
- Retail firms not yet actively offering financial services but have sincere intentions and a documented plan for doing so.

Firm Selection Criteria #1

The firm should have clear understanding on how it wants to improve or introduce its product offering to the target group. In the application the firm should therefore address the pilot objectives related to innovation, MSE segment, impact and scalability accordingly:

1. What is the innovation being proposed and why does your firm require technical assistance to test/ implement the new approach?
2. Which underserved/excluded MSE segment will be reached if the pilot is successful?
3. What measurable impact will the product or service have on the MSE segment if successful? In line with the project objectives this impact should be along the lines of reduced costs, increased access, better product fit, and or improved client experience.
4. If the pilot is successful, what is the potential for the firm to significantly scale its client outreach?

Firm Selection Criteria #2

The firm should have a clear project plan and related budget, which delineates between the resources the firm will invest (in-kind and/or financial) and those which should be financed through CGAP.

Firm Selection Criteria #3

The firm must demonstrate commitment to the partnership with unwavering C-level support.

Firm Selection Criteria #4

The firm must be ready to start the project within preferably one, but no longer than two months of being selected. Note that this favors initiatives for which substantive market research and thought has already been completed. Applicants should include their preferred project kickoff date in the



EoI, and the proposed timeline. Applicants should also identify risks to the timely launch of the new/enhanced product offering.

Firm Selection Criteria #5

The firm must be operational in any suitable low- or middle- income country with the required infrastructure to viably allow the firm to scale with its service offering to the target group.

Firm Selection Criteria #6

The firm must be willing to facilitate the sharing of lessons learned from the project through transparency on data with CGAP and allowing the publication of non-sensitive information during and after the project implementation, including related to uptake, impact, challenges, key success factors and lessons learned during the project. CGAP will not disclose information without the consent of the partners or publish or disclose sensitive competitive information.

Application Process and Project Launch

- **Phase I:** Submit Expression of Interest form to dkruijff@worldbank.org by **March 6, 2022, midnight EST**. Until the cut-off date firms can ask questions by email. All questions will be anonymized and included in the FAQ document. **All relevant documents, including the EOI form and FAQ, can be accessed [here](#).**
- **Phase II:** During the period of **March 7 to March 18**, a panel comprising of members from CGAP's LiFi MSE project team will review all applications and create a shortlist of proposals that will proceed to the interview round. Please note that, **during this period, the panel might request additional information or clarifications related to the proposals received.**
- **Phase III:** Interviews with the shortlisted firms will be held and finalized between **March 21 and 25**. During this period the panel might request several calls with an applicant firm, or even ask a firm to expand on the project proposal if certain sections require more detail or thought. Final partner selection is expected to be made the week of **March 28, 2022**.
- **Phase IV:** **The pilots should commence as early as April 2022 and no later than May 2022** with a project kick-off workshop. The envisioned client segmentation and impact research will start shortly after.