

## CALL FOR EXPRESSION of INTEREST

**CATALYZE Project:** USAID CATALYZE is a global project designed to facilitate partnerships and craft solutions to mobilize \$2 billion in blended private sector and other financing to USAID partner countries. The program can work in any development sector or region, enabling USAID Bureaus and Missions around the world to efficiently facilitate investment solutions that respond to the needs of specific sectors, issues, and geographies and leverage private sector financing to achieve development objectives.

**Engines of Growth (EoG) Activity:** The EoG Activity falls under the CATALYZE Project umbrella. The overall purpose of the EoG Activity is to facilitate Western Balkans<sup>1</sup> small and medium enterprise (SME) resilience, growth, and job creation by improving their access to and utilization of appropriate finance. EoG will help mobilize capital in order to sustain viable<sup>2</sup> SMEs and jobs in the wake of COVID 19 in the near term, and will promote improved SME growth financing in the long term. Awards under this call, if any, will focus primarily on addressing those near-term, urgent needs, with a secondary focus on promoting systemic change. However, recognizing that the pandemic has only exacerbated pre-existing systemic access to finance challenges for SMEs, in a future phase EoG anticipates focusing primarily on facilitating long-term solutions.

**Overview:** Due to the challenges posed by the pandemic, many SMEs in the Western Balkans are struggling to hold on to their markets and to access much needed liquidity to stay in business. To accomplish this objective EoG seeks to identify a local pool of specialized financial consultants and consulting companies (**ie. Business Advisory Service Providers (BASPs)**) with expertise and capabilities in strategic business planning, financial analysis and financial engineering, etc. to mobilize capital to viable SMEs with the primary purpose of restoring productivity and retaining employment. Local BASPs may be engaged directly, or through convening organization(s) such as associations or chambers. BASPs will work through a pay for results (P4R) schedule which is an umbrella term for initiatives that pay upon the accomplishments of an agreed upon result. Under P4R, the EoG Activity will set financial or other incentives for BASPs to deliver predefined outcomes, and then provide the agreed rewards upon achievement and verification of the results (ie. certain amount of financing mobilized or restructured, number of jobs retained, etc.).

**Targeted Development Challenge:** The financial markets of the Western Balkan region struggled to regain the momentum achieved prior to the global financial crisis, which stalled or reversed much of the USAID-supported progress of their post-communist transitions. As such, despite some progress, SMEs in the Western Balkans already faced pervasive challenges in accessing the finance they needed - even prior to the COVID-19 pandemic. The region's financial sector is dominated by foreign banks offering standard commercial loans with high interest rates and collateral requirements and few alternative products, leaving many firms overleveraged and/or unable to mobilize enough resources to invest in their own growth. These challenges have been exacerbated by the COVID-19 crisis. With fewer resources on reserve, SMEs are extremely vulnerable to the associated massive supply chain disruptions and economic downturn; they are expected to

---

<sup>1</sup> For this activity, eligible countries include Montenegro, Serbia, Bosnia, North Macedonia, Albania, and Kosovo

<sup>2</sup> In the context of the Engines of Growth platform, Viable SMEs are a subset of SMEs that fulfill the following conditions:

- Prior to crisis - profitable operations with a demonstrated track-record of strong business and financial management capability
- During crisis - Able to maintain some operational capacity even in forced to cut staff and reduce expenses to avoid insolvency
- Recovery from crisis - presents a model that would likely recover and grow in the post-pandemic recovery period

face major challenges in servicing existing debt and restarting their businesses, which could result in widespread bankruptcies, closures, and increasing unemployment. In countries already struggling with high rates of unemployment (ranging from 14% to over 30% before the crisis), particularly youth unemployment (ranging from 27% to over 50%), this would be devastating.

While some details of the targeted development challenge diverge somewhat among the Western Balkan countries, several common stakeholder observations have informed this approach:

- The financial impacts of the crisis on financial institutions and SMEs have largely been masked thus far, as governments have instituted emergency measures to encourage or mandate a moratorium or grace period on the repayment of existing loans. The exact nature and lifespan of these measures vary among countries, but generally have ranged from several months to over a year.
- The foreign-owned banks which dominate the financial sector in the Western Balkans are still very well-capitalized, following years of healthy profits and conservative lending. Though they may feel some strain and NPLs may begin to rise as emergency measures expire and some clients struggle to service their debts, they are well-positioned to withstand some strain.
- In the face of high uncertainty, SMEs' demand for new lending, particularly on commercial terms, is anticipated to remain low. In addition, banks' high collateral requirements, which predate the crisis, would prevent many SMEs from obtaining new bank loans if they did pursue it. There is likely latent demand for undersupplied alternative financial products such as factoring or equity investment, both to fulfil urgent needs for liquidity, and for future long-term growth financing.
- Banks are likely to be even more conservative/risk-averse in their lending to SMEs in the wake of the crisis, exacerbating a pre-existing barrier to SME growth. In addition, banks may not have adequate incentives and/or local capacity to engage with SMEs below the "top tier" (those who were already well-served by banks) in the often labor-intensive task of restructuring existing loans to facilitate the survival of even those with long-term viability.

**Responsibilities of BASPs and/or convening organizations:** BASPs are encouraged to independently identify SMEs that qualify for financial support. They should also leverage all types of guarantee instruments and public incentive mechanisms available to close financing deals for them. BASPs subcontracted by EoG, or working with EoG through organizations such as associations or chambers, will be considered part of the activity's consultant network. The EoG Activity will provide limited assistance, helping BASPs to coordinate with USAID and other donor programs to identify SMEs that require financing, and to learn from one another's experiences. EoG will also provide demand-driven training and capacity building to BASPs as needed on topics requested by members, such as accessing alternative finance (equity, capital markets), debt restructuring, risk mitigation, and opportunity identification.

**Scope of Work:** BASPs will facilitate credit and/or investments to SMEs. Potential services for client SMEs may include, but are not limited to the following:

- Identification of Financial Institutions (FIs) potentially interested in financing targeted SMEs;
- Support for business plan development (where applicable), and activation of debt or equity application processes on behalf of client SMEs;
- Support for the preparation and submission of proposals to FIs interested in providing financing to SMEs;
- Support to negotiate terms with FIs, including Debt Restructuring and/or new loan servicing terms, that are fair, reasonable and acceptable by client SMEs;
- Following through to ensure advancement of credit and/or equity to the client SMEs;
- Educating SMEs about, and facilitating access to, other financial products such as inventory credit, export guarantees, factoring, crowdsource financing, etc;
- Linking enterprises to private equity investors and facilitate negotiation of equity investment into client SMEs on their behalf; and,
- In the process, facilitating improved SME financial management sophistication.

**Deliverables and Success Fee Payments:** BASPs selected will have the same deliverables schedule, with payment calculated based on the value of deals executed. Success fee payments will be made once financing mobilized to SMEs is completed. Additional incentives will be available for financing mobilized to women-led or youth-led enterprises as well as the type of financing/ investment mobilized. EoG anticipates that multiple rounds of follow-on financial transaction services may be offered to the same SME clients.

Incentive payments for each subsequent loan or investment to the same enterprise will most likely be reduced.

### **Qualification Criteria**

**Contents of EOI:** A response to this EOI will include the following information to demonstrate technical expertise, management capability, and capacity to perform the work. ***Please limit responses to 5 pages maximum, excluding resumes of proposed personnel.***

- 1) **Description of Services and Technical Approach (60 points):** Respondents must demonstrate a clear understanding of the assignment to be undertaken on behalf of EoG and describe the methodology and process for carrying out the SOW. Respondents to this EOI shall provide brief answers to the following questions:
  - A description of the services to be provided (i.e. what you will do).
  - Approach to investment and credit facilitation services to SMEs (i.e. how you will do it).
  - Approach to identifying SMEs with long-term viability that require financing.
  - Approach to identifying FIs to participate in the program and modalities for establishing an ongoing relationship (MOUs, other)
  - Approach to ensuring additionality and avoiding market distortions (i.e. financing would not be mobilized w/o project assistance).
  - Approach to working with - but not duplicating - other donor programs and government policies to mobilize financing (which specific donor or government programs will be leveraged).
  - Suggestions on structuring success fee payments.
  
- 2) **Technical Experience, Capabilities, and Qualifications (40 points):**
  - Include a short summary of relevant capabilities in the provision of technical assistance to facilitate financing to SMEs, including a description of those assignments.
  - Present at least 3 references of successful investments in the past 5 years, including the list of FIs that advanced financing (kindly elaborate the work performed, in addition to the company and contact person)
  - Include an overview of staff expertise and submit resumes of personnel, highlighting relevant experience and qualifications.

**Selection, Pilot Period and Possible Expansion:** It is anticipated that initially two pilot countries will be selected among the six eligible, based on the overall quality of responses to this EOI. Following the country selection, qualified respondents from those selected countries will be invited to enter into a success fee payment contract with the EoG Activity. After the initial round of awards, Palladium may choose to revisit EOIs received and/or reissue the call to pursue additional awards, possibly in additional countries in the Western Balkans.

***Responses should be submitted by e-mail to [WBalkans.EoG@thepalladiumgroup.com](mailto:WBalkans.EoG@thepalladiumgroup.com) no later than December 16, 2020 at 17:00, Washington DC time. Please adhere to the following format in the subject line of any emails related to this Call: "Letter of Interest from [1) country and 2) name of consultant/company]". Only respondents who qualify based on the qualification criteria above will be contacted.***