



Issuance Date: April 29, 2022

Request for Application: MS4G Blended Finance Program for Financial Institutions

Request for Application Number: RFA-CATALYZE-Ethiopia-2022-0034

Due date for submission of questions: May 6, 2022

Pre-application Conference Date: May 10, 2022

Closing Date for Receipt of Applications: May 27, 2022

Total funding available (all grants): \$1,000,000

Anticipated Number of Grants: 5

Dear Prospective Applicants,

CATALYZE Ethiopia: MS4G, an initiative funded by the United States Agency for International Development (USAID) and implemented by Palladium LLC, is inviting financial intermediaries (FIs) that are interested in increasing access to capital and financial inclusion of Micro, Small, and Medium Enterprises (MSMEs) with a focus on the agriculture, food and water, sanitation, and hygiene (WASH) sectors through increased loan disbursement and capital mobilization in Ethiopia.

The agreements with selected Financial Institutions (FIs) resulting from this Request for Application (RFA) will be administered in accordance with USAID regulations, as applicable.

The RFA is comprised of the following main sections:

- I. FUNDING OPPORTUNITY DESCRIPTION
- II. ELIGIBILITY REQUIREMENTS
- III. APPLICATION AND SUBMISSION REQUIREMENTS
- IV. APPLICATION REVIEW INFORMATION
- V. AWARD ADMINISTRATION INFORMATION

Annexes

1. *Technical Proposal Format*
2. *Fixed Amount Award (FAA) template*

Successful Applicants will be responsible for ensuring achievement of the program objectives. Please refer to the Program Description section of this RFA for a complete statement of goals and expected results.

Subject to availability of funds, CATALYZE MS4G intends to issue grants for up to \$1 million in total for results achieved from June 2022 to May 2023. CATALYZE MS4G reserves the right to fund any or none of the applications submitted.

To be eligible for award, Applicants must provide all required information in their application, including the requirements found in any attachments to this RFA. Applications that are submitted late, or incomplete, will not be considered. Awards will be made to the applicants whose applications best meet the requirements of this RFA and the evaluation criteria contained herein.

CATALYZE MS4G requires that applications to be submitted electronically (e-mailed) to EthiopiaMS4G.procurement@thepalladiumgroup.com no later than May 27, 2022 @ 17:00 EAT.

Issuance of this RFA does not constitute an award commitment on the part of CATALYZE MS4G, nor does it commit CATALYZE MS4G to pay for any costs incurred in the preparation and submission of an

application. Further, CATALYZE MS4G reserves the right to reject any or all applications received. Applications are submitted at the risk of the Applicant, and all preparation and submission costs are at the Applicant's own expense.

CATALYZE MS4G will conduct meetings for all interested applicants to answer any questions related to this RFA.

Sincerely,

CATALYZE MS4G Procurement Team

SECTION I: FUNDING OPPORTUNITY DESCRIPTION

Background

USAID CATALYZE Ethiopia: MS4G is designed to benefit the Ethiopian people, build community resilience, and strengthen rural-urban linkages in the areas of food security, and Water, Sanitation, and Hygiene (WASH). MS4G invests in developing relationships with private sector players, co-investing in inclusive business models, advisory services, digital solutions, and market-based initiatives that increase the resilience and sustainability of Ethiopian enterprises and employment for women and youth. The project supports activities in Addis Ababa and the secondary cities of Ethiopia. MS4G invests in developing relationships with private sector players, co-investing in inclusive business models, advisory services, digital solutions, and market-based initiatives that increase the resilience and sustainability of Ethiopian enterprises and employment for women and youth.

CATALYZE MS4G seeks to work with multiple FIs in Ethiopia to address the shortage of capital for Small and Medium Sized Enterprises (SMEs), to unlock the potential of private capital to strengthen the resilience of growth oriented Ethiopian SMEs, particularly those in the food security value chain and WASH sectors. Financial intermediaries are largely not lending to these sectors due to two major factors, namely: 1) the high transaction costs and risk associated with lending to SMEs in these sectors, particularly women businesses, and the lack of appropriate products targeting the demand in these sectors; and 2) financial intermediaries are constrained with limited loanable funds and must choose between well-understood and profitable sectors and the less well-known sectors and neglected target groups. To bridge the gap that exists in credit access to SMEs in these sectors and particularly enterprises that are women owned and/or managed, MS4G has developed a blended finance grants program targeting financial intermediaries. The program will use incentives to reduce the barriers to FIs which struggle to expand lending at scale to SMEs working in the WASH, food security, and agriculture sectors.

Description of Funding Opportunity

CATALYZE MS4G is issuing this RFA for the MS4G blended finance activity on a pay-for-results basis. Performance based grants are intended to encourage and drive expanded financing and investments into SMEs. This financing may include working capital, capital investment, debt, and any type of structured finance investments. CATALYZE MS4G seeks to engage FIs to expand access to finance for SMEs by providing cash incentives to financial intermediaries to extend credit to SMEs in the food security and WASH sectors. CATALYZE MS4G strongly encourages and welcomes the facilitation of financing for women-led enterprises, and enterprises located in secondary cities.

Award Information

This Application is a call for Ethiopian financial institutions (FIs) committed to expand lending to or investing in, or for the benefit of SMEs in the agriculture, food and WASH sectors. Selected FIs will participate in CATALYZE MS4G's Pay-for-Results Fixed Amount Award (FAA) Grants program, to receive milestone payments for mobilizing new financing (debt, structured or project finance) that meets the qualifications listed in this Application. MS4G will review grantee performance every six months and evaluate whether adjustments are required.

SECTION II: ELIGIBILITY REQUIREMENTS

In order to be considered eligible for a grant award, prospective grantees must:

- Be legally registered in accordance with the laws of Ethiopia (registration documents required);
- Not be part of a government or any government structures;
- Not appear on any list of debarred or suspended entities (as found on www.sam.gov), or on any terrorist watch list or other published list of ineligible recipients.
- Certify that they are not affiliated with any political party nor engaged in any partisan activities.
- Certify that they are receptive to participation in available learning opportunities and commit to participating in capacity building components
- In addition, all prospective Grantees under consideration for an award exceeding \$25,000 (or local equivalent) must have or be able to obtain a Unique Entity Identifier (UEI) Number.

Note: GSA has developed a useful interactive PDF tool that guides through the most common scenarios about UEI (https://www.fsd.gov/sys_attachment.do?sys_id=af05f8fb1b44851006b09796bc4bcb6d)

Eligibility Requirements for Applicants

CATALYZE MS4G will consider applications from FIs with one or more of the following attributes:

- FIs without an existing SME financing with an interest in developing a SME lending portfolio
- FIs with an existing SME portfolio with an interest to expand lending to SMEs, particularly in the agriculture, food security, and WASH sectors, or introduce new SME lending standards and practices, and types of finance products available to SMEs
- FIs with a demonstrated ability to initiate or expand lending to SMEs in secondary cities (population size of greater than 300,000)
- FIs with a compelling and feasible strategy to initiate or expand financing to SME clients, with a specific focus on SMEs operating in the agriculture and WASH sectors, and/or women-owned SMEs

Determination of the Pay-for-Results Incentive Fees

A. Eligible Sectors and Geographic Scope

FIs will be eligible to receive incentives for supporting financing for SMEs in the to the following sectors:

- 1) Food Security value chain including agriculture and food production by agribusinesses, cooperatives, small farmers, agri-tech companies, and anchor firms engaged in agriculture food value chain. The engagement could be on agri-input, cultivation, harvesting, post-harvest, transportation, processing, marketing, distribution, and consumption.
- 2) Water, Sanitation and Hygiene (WASH), including financing for enterprise to improve WASH product or service quality and availability, scale innovative products or services, expand distribution to underserved market segments, and/or improve access to safe drinking water, sanitation solutions, and hygiene in Ethiopia

CATALYZE MS4G will provide incentives to participating FIs for financing SMEs throughout Ethiopia, including Addis Ababa. However, based on MS4G's geographic focus, at least 50% of qualified SMEs for which a participating FI receives an incentive payment under this initiative must be located within secondary cities; defined as cities with a population size of 300,000 or greater.

The Pay-for-Results incentive payments for qualified SME financing under this grant will pay, in USD, a commission no higher than 2% of the financing/invested approved or received by qualified enterprises per the schedule below.

Type of qualified SME	Commission fee
Qualified women-owned SME	2.0%
Qualified SME in WASH sector	1.5%
Other qualified SMEs	1.0 %

B. Eligible Enterprise Definitions

CATALYZE MS4G will pay an incentive to verified financing to SMEs in target sectors and geographies that meet the following size parameters:

Enterprise Type	Sector	Employee Size	Total Assets (USD)
Micro	Industry	≤ 5	≤ \$4,630
	Service	≤ 5	≤ \$2,310
Small	Industry	6-30	\$4,630 - \$69,500
	Service	6-30	\$2,310 – \$23,150
Medium *		50-249	>\$23,150

Source: Ministry of Urban Development and Housing, * Medium enterprise is defined primarily on size of employees. Asset size can be between \$23,150 to >\$69,500 (depending on sector type).

The ideal profile of an SME targets are those that are seeking financing in the range, on average, between \$50,000 and \$250,000, operating in the WASH or food security value chain, located in secondary cities, and preferably women-owned/led. CATALYZE MS4G will also support transactions below \$50,000 if they meet all other requirements.

Financial institutions participating in the blended finance program can generate and qualify SME client pipelines in multiple ways including:

- 1) SMEs identified through MS4G activities: Through initiatives being undertaken by the MS4G enterprise growth objective area, and the utilization of business advisory service providers, several SMEs are receiving technical assistance to improve overall firm performance and operations to make the enterprises bankable. MS4G may identify SMEs and firms within the broader MS4G program ecosystem whose profile and financing needs align with the blended finance program objectives.

In these instances, MS4G will provide participating FIs with SME referrals to consider, understanding that the FI will need to undertake its own credit assessment. If MS4G recommends an SME for financing to the FI, then the SME is considered pre-qualified for an incentive payment and does not need to undergo additional prescreening requirements.

- 2) SMEs identified by participating FIs. Participating FIs may – and are encouraged to – identify SMEs and firms outside of the MS4G ecosystem that they would like to extend credit to under this incentive program. These proposed SMEs will need to meet the criteria set by MS4G, including that at least 50% of the SMEs financed under the blended finance program must be in the WASH and food security sectors and operate in secondary cities.

C. Financing or Private Capital Definition

Financing or private capital is broadly defined as financing provided by non-state established private finance providers of new loans or financing, including debt instruments for the purposes of refinancing, restructuring, lines of credit, letter of credit, promissory notes, invoice and receivable financing (factoring), export financing, and recoverable grants, or any other financial or investment product or mechanism (including digital) supporting private enterprises in Ethiopia.

SECTION III: APPLICATION AND SUBMISSION INSTRUCTIONS

The section below details the requirements from the Applicants to respond to this Request for Application. 'The Applicants' (where capitalized) means the person or organization to whom this invitation has been sent, and/or the person or organization responding to this invitation (as applicable).

Application Due Date

This Request for Application (RFA) from FIs is open until 17:00 EAT, May 27, 2022.

If potential applications have any potential questions, queries and clarifications, they may forward them to the following email address at EthiopiaMS4G.procurement@thepalladiumgroup.com before May 6, 2022. Answers will be shared to all applicant FIs that ask questions or indicate an interest in applying. In the e-mail subject line please include the RFA number and the nature of your question.

The completed response to this RFA must be delivered via email with all relevant documents to the following email address:

Grants and Subcontract Manager

Desalegn Mhired

CATALYZE Ethiopia MS4G

Email: EthiopiaMS4G.procurement@thepalladiumgroup.com

Application Contents

The application must contain the following:

- a) **Cover Letter** (no longer than 1 page) to the application with information regarding the FI. General information includes: (1) Legal Name of Organization, (2) TIN number, (3) Mailing Address, (4) Physical Location, (5) Contact Information, (6) Organization's Legal Representative.
- b) **Technical Proposal** (form provided in Annex 1)
- c) **Supporting institutional documentation**, including:
 - a. Copy of organization's legal registration; and
 - b. Either copy of the last annual report, or operational plan, or business plan, or strategy plan (only one of them)

Applications are to be written in English and submitted in Word/PDF and budgets (if any) are to be submitted in Excel (unlocked).

SECTION IV: APPLICATION REVIEW INFORMATION

The application must be fully completed in all aspects. An application may not be considered if it is received after the submission deadline.

Selection Process

Applications will be evaluated as they are received until the deadline date of May 27, 2022.

The process for selection of successful grantees will follow steps below:

- a) The Procurement manager/Specialist, via email notification, will confirm receipt of each Application received, ensuring a strict order of arrival.

- b) The Procurement Manager/Specialist will check that each Application has met the eligibility requirements from Section 2. Any ineligible proposals will be informed immediately that they will not be evaluated.
- c) The Procurement Manager/Specialist on rolling basis will submit eligible Applications to the Technical Committee (TEC) to review and evaluate them individually and immediately afterwards and will give feedback to each Applicant.
- d) The TEC will formally evaluate each Application in writing, using an Application Evaluation Form. The evaluation will be based on the selection criteria (listed below) and points based on 100 as the maximum points allowed.
- e) Applications that are scored higher than 70 will undergo a risk assessment and then be sent to the Country Director (CD) for approval
- f) The application will be submitted to USAID for final approval
- g) If approval is granted, MS4G will issue the FAA grants.
- h) Unsuccessful applicants/applications will be notified in writing and may possibly share the reasons for the rejection.

CATALYZE MS4G reserves the right to negotiate award specifications once a successful proposal is identified, or to make an award without conducting negotiations based solely on the written proposals if it decides it is in its best interest to do so.

Evaluation Criteria

Evaluation Criteria		Information Source (See Annex I- Technical Proposal)	Maximum Score
1	<p>Amount and reasonableness of financing to be committed (in USD or ETB terms) in value of financing in target sectors and geographies of this program. The greater the value of financing to be committed by FIs and deemed reasonable, the greater the points to be obtained.</p> <p>Consideration will be given to the proportion of the committed amount in relation to the current financing portfolio or proposed increase in overall financing to SMEs as a result of participation in this program.</p>	Technical Proposal points 2 and 3 and financial statements	30
2	<p>Commitment, capacity and strategy to expand financing activities to SMEs.</p> <p>Consideration will be made for FIs with existing SME financing programs with a compelling strategy to expand SMEs in MS4G target sectors and geographies; introduce new financial products; or test new SME products that are less reliant on traditional collateral.</p> <p>Consideration will also be made for FIS without existing SME financing programs able to present a compelling rationale and strategy to introduce new SME-oriented financial products and invest in internal capabilities to expand lending to SMEs.</p>	Technical Proposal points 2, and 3	25
3	Compelling strategy and capacity to contribute to MS4G's target of 50% of financing mobilized under the blended finance program to include women-owned enterprises	Technical proposal points 3	20
4	Compelling capacity and strategy to provide loans to SMEs in secondary cities as measured by number of branches	Annual Report	15

	outside of Addis Ababa and % of loans extended in secondary cities.	Proposal points 3	
5	The current level of financing extended to SMEs (per annual report) as a percentage of total loan portfolio.	Technical proposal point 1	10
	Total		100

SECTION V: AWARD ADMINISTRATION INFORMATION

A. Deliverables required for incentive award payment

Each of the FIs selected under this RFA will have a milestone payment of \$30,000 in USD. The milestone payment will be determined by incentive rates based on the types of qualified SMEs receiving finance. To receive payment, the FI must provide evidence of the approval and disbursement of financing or investment in the enterprise. The required documentation is listed below.

Proof of financing / investment disbursement

Disbursement may include the legally binding financing or investment offer/acceptance documents.

- i) for debt, **a written or electronic financing commitment** (a legally binding loan agreement) from a finance provider and accepted by the finance seeker
- ii) for non-debt (equity or grants), disbursement of financing

B. Reporting

CATALYZE MS4G reserves the right to audit documentation of disbursement results at any time, as the project conducts Monitoring and Evaluation verifications. CATALYZE MS4G will obtain both FI and enterprises' approval to release information in publicly reported success stories, periodic report, and lessons learned reports. The FI may be required to submit additional reporting on a periodic basis (reporting format will be provided by MS4G). Participating FIs agrees to comply with and respond to MS4G requests for information.