

Association of Ethiopian Micro Finance Institutions (AEMFI)
Invitation for Proposal and Price quotes to facilitate an Exposure
Visit and International Study to India and Vietnam

Title: International Study and Exposure Visit Program on New Trends in Financial Technologies; Developments in Microfinance Inclusions and Emerging Challenges, Learning and Policy Experiences from India and Vietnam

I. Introduction and Background

Digital Technologies have changed the landscape of Financial Intermediaries (FIs) across the Globe. Over the last one and half decades, the FIs have consistently used technologies to change their operational landscape and presently the financial system is undergoing a crucial phase of digitization. The technology, like a lens, is even changing how we see and understand the world. Increased availability of mobile and low-to-zero cost online services is changing the way people work and interact. Consequently, job-for-life posts, which were common until a few decades ago, are being replaced with a more fluid workforce in whom employees may have three or four careers in different sectors and have higher expectations for their careers. MFIs focus on the delivery of financial services outside conventional bank branches, often using Agents or Mobiles and relying on Information and Communications Technologies (ICT) to transmit transaction details either through Point-Of-Sale (POS) Terminals, Mobile Phones, Internet Banking or ATMs. It has the potential to radically reduce the cost of delivery and increase convenience for customers irrespective that they are rich or poor. Consequently, Digital Finance Methodologies and Channels have significantly increased the people's Access to Financial Services.

Driven by rapid advances in digital finance models, financial institutions started delivering the banking services at the door steps of customers which are not feasible to provide through regular banking practices. Technology leveraging financial institutions to provide banking services through other delivery channels with existing infrastructure already reached unbanked people. In banking, where margins are low, especially the case of banking the unbanked, financial service

providers need to keep their fixed costs low. Mobile Banking and Branchless Banking (Agent Banking) as alternate delivery channels can help financial institutions to provide services in cost-effective manner. These solutions are offering key banking functionalities such as balance checking, cash withdrawals, deposits, transfers, utility bill payment, purchase and sale transactions, etc. It has advantages over traditional banking methods because it breaks down geographical constraints and also offers other advantages such as immediacy, security and efficiency. Its power is in transforming the economics of service delivery, especially by reducing the costs of financial transactions.

II. RuFIP-III

The Rural Financial Intermediation Programme (RuFIP-III) in Ethiopia is the third development intervention supported by the IFAD under its overall Strategy and Development of Agriculture and Development and Financial Sectors. The overall goal of RuFIP-III is *improved livelihoods and reduced vulnerability and poverty in Ethiopia*. The objective of the programme is *improved livelihoods and reduced vulnerability and poverty through increased incomes and better ability to manage risks at household level*. RuFIP-III will be achieved through a nationwide network of 11000+ RuFIP supported RUSACCOs and their secondary structure (Unions) and 40 MFIs Improved access to finance will also include targeting beneficiaries of other IFAD funded projects. RuFIP will cover 13.5 million clients of which more than 75 percent will be poor in different strata and includes about 6.5 million new clients to be acquired during the programme period.

The key outcomes planned include:

- *Strong rural financial institutions with sound operating performance that offer better Financial access to vulnerable people;*
- *Wider offer of services and products responsive to customer needs from RFIs that are supported to diversify and expand business; and*
- *Effective Financial inclusion for marginalised people and regions. RuFIP-III will continue to be a nationwide initiative with increased focus on least developed areas.*

The proposed target group consists of rural poor (3.25 million very poor, 7 million moderately poor other categories) people with financial services requirements (savings, credit and insurance)

for asset build up and loans for agricultural and other rural enterprises, especially youth-led and women-led. People in least developed areas would be served in a manner designed to improve their resilience through savings, credit and insurance products. Beneficiaries of other IFAD-supported investment projects – PASDIP II, PCDP III and LLRP will be targeted as well (RuFIP-III Design Report 2019).

III. IFAD and Rural Financial Institutions

RFIs in Ethiopia through its sustained engagement over the last 15 years (RuFIP I and II) have played a pivotal role in supporting the expansion and outreach of MFIs and RUSACCOs. MFIs grew from a handful when first phase of RUFIP became operational, to 39 to date with a significant share benefiting from debt finance and technical skills development offered through the RuFIP Programmes. Likewise, the number of RUSACCOs increased from 134 during RuFIP-I start-up to about 11,200 in December 2018. A sound financial sector focused on poor, vulnerable and underserved areas can make a difference to livelihoods and economic growth. RFIs require not just technical capacities, but also financial resources in the initial stages to lend. Regulators of financial sector should be supported to develop the RFIs as sound and sustainable institutions. RFIs should focus on targeting poor and vulnerable and social performance management apart from protecting customers.

RuFIP-III has recognized that the Theory of Change (TOC) based on the assumption that by increasing the access of rural poor faced with development challenges to a range of financial services and products better tailored to their needs will in turn be able to invest in their farming activities (and thus in their enhanced productivity and competitiveness) and/or diversify their income through off farm activities and gradually improve their livelihood and their resilience to climate change related shocks. As such, the RuFIP-III is designed to address the problem of limited access to finance by rural poor associated with lack of collaterals to access credit; limited culture of savings and low level of financial inclusion arising from limited financial institution presence, lack of products and services suited to rural poor and lack of financial literacy. The TOC also recognizes that RFIs, which have the potential to improve access to services for rural poor suffer from paucity of funds, comparatively low technology and skill levels and absence of systems and processes geared towards customer protection and social performance. The regulators face challenges of continuously developing regulatory capacity (both technical and

procedural) to meet the rapidly growing industry demands. In order to further improve access to finance interventions at macro (NBE, FCA), meso (MFI RUSACO/Unions) and micro levels (Clients) are needed.

IV. Ethiopian Financial and Microfinance Sectors-Growth and Development: Critical Challenges

Although Ethiopian MFIs have professionalized their operations in recent years, their financial accounting often remains patchy, with manual bookkeeping and a lack of systematic reports. As a result, MFI management have incomplete information about the performance of their portfolios, and external stakeholders such as shareholders, regulators, and lenders—are uncertain about the validity of the figures communicated. The introduction of the International Financial Reporting Standards (IFRS), formalized by a 2014 law, provides a framework for resolving this problem. IFRS adoption while represent a challenge for some MFIs, but the larger MFIs are well placed to lead the initiative. Introducing or updating management information systems and adopting accounting practices that follow internationally accepted standards will help MFIs to better understand risk, restructure liabilities where necessary, and channel scarce liquidity to where it can be most effective. It will also increase their ability to access financing from commercial sources such as domestic banks, thus broadening their financing options in preparation for the next liquidity shock.

Digital financial services can improve efficiency and outreach significantly. RuFIP-I and RUFIP II have transformed the MFI sector in improving their liquidity, creditworthiness and in turn their outreach. The significant growth in outreach provides an opportunity for automating financial management, and continued improvement in the supervision and reporting of the entire rural finance system of RUSACCOs/their Unions and MFIs. Six MFIs are already offering mobile money products through 800 branches; there is strong recognition that innovative initiatives such as digital finance/mobile banking can transform financial inclusion landscape. Ethiopian Inclusive Finance Technology (ETIFT) set up by MFIs under the AEMFI umbrella developed a Shared MIS Project initiated under the RuFIP-II involves 25 small and medium microfinance institutions in Ethiopia. Although the major part of the project fund comes from the RuFIP-II programme, the MFIs also contribute a matching fund for the success of the project. The project

implementation began in February 2018 by recruiting a project consultant and setting up local project team at AEMFI level. Currently, the project team is in the way of completing the project and preparing for transferring it to EiTFT. The project aims to setup a shared data center that can be used by the 25 MFIs that are part of the project. By setting up a shared infrastructure, huge budget will be reduced that will open an opportunity for several medium and small member MFIs of AEMFI to automate their information management system.

V. Capacity Building and AEMFI

The MFIs have shown that with support of RuFIP-I and II, capacity building initiatives made the well-run institutions to expand their operations and outreach with profitability and sustainability. The last eight years data shows that MFIs in all three categories (Large, Medium and Small) have been operationally sustainable and provided good returns on assets and equity. The Association of Ethiopian Microfinance Institutions (AEMFI), the Country Microfinance Network has been associated with managing and coordinating the implementation of the RuFIP-I RuFIP-II programme over the past 15 years in Training and Capacity Building Initiatives among other activities.

The RuFIP among other objectives was designed *to enhance the capacity of MFIs and Financial Cooperatives in providing financial services in rural areas in particular*. With this program, significant efforts have been exerted towards supporting RFIs particularly MFIs to ensure that their sustainability and improve quality of services provided to rural households over the years. Despite the progress achieved, the sustainability and new developments in the Sector in the provision financial services is constrained due to a number of factors: *Limited Experience and Expertise of HR in the middle and senior management, Corporate Governance and Risk Management, Lack of Effective Links between and among RFIs and Commercial Banks, Insufficient Infrastructure, Slow growth of implementation of mobile and electronic banking in the MFIs etc.*

In this context, AEMFI continuously makes strategic interventions and phased approaches to address the prevailing problems and comes out with feasible solutions in strengthening the skills and supporting the sector.

VI. Rationale for Exposure Visit / International Study and the reason opt for India or Vietnam

The reasons to opt for India/ Vietnam from the perspective of poverty alleviation, socially relevant, or pro-poor, rural financial institution is of particular interest in a country like India Vietnam / since it is in rural areas that most of the poor live. The soundness and depth of Indian /Vietnam rural poor financial system with its regulatory and apex formation system and the financial technologies in use in its financial system has a clear impact on the exposure visit we have planned to undertake. India's financial system in absolute terms does impress next to other large countries such as China or Brazil, it compares well with other emerging economies and financial system technologies. The exposure visit may either end in India in Vietnam or both depending on the availability of budget and time. It will be completed by negotiation between AEMFI and the facilitator firm.

Equally, India/Vietnam can count an impressive number of formal financial institutions- both in urban and rural areas. The financial system in India is diverse and as such rural saving and credit cooperatives and micro finance institutions play a particularly important role in providing finance to the rural poor. In addition MFIs and banks, there are cooperative village banks which are particularly important in rural areas, a huge network providing savings facilities, as well rural medium financial institutions such as Rural Savings and Credit Cooperative societies and micro credit societies like primary agricultural credit societies (PACS) that have a vast network in rural areas with workable regulatory systems and financial system applicable technologies.

It is equally important also to look for the practices of these different financial institutions in improving the financial knowledge and skill of their community/society. Lessons should be derived on the ways and means of executing the financial education to enhance our ongoing rudimentary practices. The financial education process will help us to prioritize the population engaged in the rural agricultural sector, with special emphasis on women, youth and children. Moreover, through innovative ways & means, i.e., the use of different technologies and methods to reach the excluded population is vital in creating access as well as broaden the range of financial services provided.

Given the growing sector and need to support the institutions with required skills at all levels becomes the need of the hour. Demand for credit and variety of financial and non-financial

services from rural and urban areas is increasing. This makes AEMFI to equip the board of MFIs , implementing partners and policy makers to get equipped with necessary knowledge and experiences on various thematic areas that will in turn help to improve the functioning and service offerings through design and implementation of such experiences and knowledge.

In the Microfinance Sector across the globe, many new developments are taking place suiting to the demand from the clientele. As part of this initiative, AEMFI planned for an International Exposure Visit Program (IEVP) as a tool to facilitate Learnings, Experiences and Good Practices from other Asian countries. As part of the Institutional Capacity Building of the Programme Implementers, AEMFI has chosen broad Theme as Rural Finance with emphasis on Microfinance and related areas, the way they are organized and regulated by their Apex and Other Regulatory Institutions, International Good Practices. This will help for the better programme implementation in the coming years.

The main reasons for an Exposure Visit of this kind is basically from the perspective of poverty alleviation, social relevance, and pro-poor activities through rural financial institutions and their application of digital finance. RFIs is of particular interest in a country like India and Vietnam since both countries have vast rural areas that most of the poor live and strong supportive policy has been kept in place by the Government and Central and Apex Banks with focussed Strategy and Policy Framework. Further, the soundness and depth of the Indian and Vietnam Rural Financial Systems with their Institutional, Regulatory and Apex Banking Infrastructure for various activities/sectors has a clear impact on the Rural Development and will help to understand in having the Learning Experiences. Similarly, the digital finance and usage of mobile and on line banking services on wide spectrum of products, India improved significantly during the last five years which can be replicated with suitable modifications in Ethiopian MFIs.

VII. Objectives

The broad objective of the International Study and Exposure Visit is to learn lessons from India and Vietnam in the operation and management of the provision of Financial Services to the rural and urban poor through MFIs and to have practical experiences with policy-mix measures by the MFIs with the Regulatory support mechanisms by Central/ Apex Banks and digital technologies in service dispensation.

The specific objectives are to:

- Identify how MFIs employ front end technologies in providing quality services to their clients in competitive ways to tackle international completions in their financial system
- Learn the New Trends and Developments in the Sector and how the Sector is responding to the demands of the clients and Regulatory and Donor Funding Institutions;
- Understand regulatory and supervisory issues pertaining to policy, strategy and legal aspects in expanding outreaches while using digital finance technologies;
- Gain hands-on-experience on the governance, organizational structures and management of MFIs and their Apex Organizations;
- Comprehend the financial service provisions vis-à-vis development programs through range of Financial Products offered by the MFIs;
- Managing the Crisis situations such as (COVID-2019) and how to support the Recovery process based on the Lessons from other Institutions from countries;
- Learn the value chain finance and new developments in the Institutional structures in supporting the farmers access to finance and non-financial services;
- Understand the process of Securitization and models applied by the MFIs as part of stabilizing and expanding their credit portfolios and regulatory supports and constraints;
- Understand the manner the MFIs moving forward with digital technologies in day-to-day operations and offering services at door steps and on-line and strengthening the MIS;
- Visit Institutions) and interact with successful Microfinance institutions, Clients. Apex Banks, Technology Service Providers and interact suitability of software for improving the systems; and
- Prepare an Action Plan from the Study and Exposure Visit for making the suitable changes/modifications for better and improved functioning of MFIs

VIII. Thematic Areas

Broadly, the Study and Exposure Visit should cover the following:

- Transformation of Microfinance/Micro Banks and Integration with Formal Financial Sector and Implications for the Stakeholders;
- Corporate Governance, Event Risks and Management;
- Regulatory Compliance and Central Bank/Apex Banks' Support;
- Strategy and Leadership Management;
- Demand-driven Financial Products and Impacts on Sustainability of the MFIs;
- Islamic Banking
- Rural Credit and Value Chain Finance Models;
- Digital Finance Models and Services;
- National and International competitions and importance of digital finance technologies
- Employment of front end technologies
- Securitization;
- Managing the MFIs post COVID Pandemic Recovery- Tools and Policies

IX. Expected Outcomes

At the end of the study program and exposure visit, the participants will be able to:

- Understand the structure and growth of the financial system in India/Vietnam in relation to MFIs/RFIs/Apex organizations;
- Understand the regulations related to policies, strategies as well as legal aspects;
- Gained through understanding of governance, organizational structures and management of MFIs as well as their selected apex organizations;
- Hands-on-experience on how digital technologies have helped in offering of quick and on-line financial services and visit to service providers;
- Through intensive discussions and Institution/Country Case Studies, how the Crisis Management situations have overcome for quick recovery;
- Understand the importance of digital finance technologies in competing financial market
- Prepare an “Action Plan” based on their learnings that can be consolidated and to formulate a framework of an “Action Plan” for submission to Boards for review and implementation, where possible.

X. Methodology

The methodology needs to include Classroom Technical Sessions, Field and Institutional Visits, Roundtable Discussion on Selected Theme/s of contemporary and Policy Issues leading to interactive discussions with the Senior Professionals/ Bankers/Policy Makers etc.,.

XI. Experience visit and topics to be covered during the study program Sessions

Experience sharing arrangements are going to be dealt with well known regulatory organizations in this regard and organizations, associations, micro finance and saving and credit organizations, apex institutions etc will be part of the visit. The indoor training sessions are going to be organized into 10 sessions to cover the topics identified during when contract agreement is to be signed. Audio video equipments, other written materials and furniture are assumed to be applied in the study program session. In more detail the sessions should include the following main areas:

Session 1-2: Overview of Rural financial Sectors and development programs in India

Session 3: Development programs, contributions and relationships of stakeholders (country experiences overview)

Session 4-7: Class room training in more detail context:

- Risk & Financial Management for Microfinance Institutions
- Rural and Agricultural Finance
- Transformation & Deposit Mobilization
- Product Development: from concept to implementation
- Leading for results – how to fulfil the role of policy makers, regulators and senior manager

Session 8: Strategic Supports and Regulations including Non-interest finance (country experience general overview)

- Role of Government, apex banks/organizations, Associations and other regulatory bodies in the Rural Financial Sector

- Improving the functioning of MFIs and other financial service providers: Recent policy initiatives by Government other development organizations

Session 9-10: Digital Finance and Applications of Rural Financial technologies

XII. Participants and duration

The participants for this Study and Exposure Visit include Board members of AEMFI, Senior Management team of selected MFIs (Large, Medium and Small), partner implementers of RUFIP III, AEMFI staff etc. The numbers of participants are supposed to be 9/10. The exposure visit program is planned to be effective starting from the mid of July 2022 for a total of 8 days for first trip in which 2 days are for transport from Ethiopia to the exposure visit destination area and vice versa. A team from AEMFI will select and approve the international consultancy/training firm and a contract agreement will be signed to initiate & start the process after it receives a go ahead of the procedures from DBE/IFAD. 80% of the weight will be given to the proposal which details about the places/institutions to be visited, quality of professionals/expertise present to the round table discussions, facilities or services to be provided, etc.

XIII. Competencies

The Training/Research/Consulting Firm shall have the following functional competencies to provide:

- Experience of offering similar Training/Study/ Exposure Visits and Programs in various countries in Asia;
- Proven experience in designing and delivering MFIs/Financial Sector Trainings and/Consultancies;
- Experience providing consulting and advisory services to microfinance or financial institutions and key sector experience including Agriculture, Digital Finance, Corporate Governance and Strategy, Risk Management Financial Inclusion, Leadership Skills etc ; and
- Ability and having partner institutions in to offer and provide Programs in a multi country and multicultural setting

XIV. Evaluation Criteria

In order to undertake the Study and Exposure Visit, the Training/Research/ Consulting Institutions should have the following:

- Consulting Firms should have been in existence for more than 3 years;
- Valid Company Registration and VAT/ Tax registered and renewed licenses of the firm;
- General experience of the firm related to organizing the Exposure Visits/ Workshops/ Study Programs in various countries;
- Relevant Experience in the field of Financial Sector in general and Microfinance in particular supported by Testimonials from the Clients;
- Technical and Managerial Capability of the Organization to handle the Programs efficiently and effectively in professional manner;
- Adequacy of the proposed Work Plan and Approach and Methodology in responding to the ToR; and
- Key Professional Staff with qualifications and competence for implementing the Study and Exposure Visits and strong contacts in other countries to facilitate the Program

Price/Budget

In addition to the discussion sessions the facilitator organization is expected to arrange experience sharing/exposure visits for the delegates. This may include visiting 2-3 related and well organized institutions in their respective regions across India. Moreover, depending on AEMFI request, the arrangement may include other neighbouring countries to India which have more operating experiences as a network or apex organization. The facilitator is expected to consider these all costs and mention details in quoting its prices in clear and alternative manners.

The price should include non-residence tax payment of 15% according to the Ethiopian government regulation. The submission date for the proposal details and the quoted price is 10 consecutive days from the date this invitation notice is published on a local journal, on AEMFI's website or emailed to the bidding organizations. The bidder organization can send its documents to AEMFI through its email: aemfiet@gmail.com within the specified days.