



## ***UNCDF, Request for Applications (RFA)***

### **Inclusive Innovation for improved access to finance for MSME through digital financial services**

#### **1. INTRODUCING UNCDF**

UNCDF is the UN's capital investment agency for the world's 47 Least Developed Countries (LDC). UNCDF uses its capital mandate to support LDCs pursue inclusive growth. UNCDF promotes financial inclusion, also through digital financial services (DFS), as a key enabler of poverty reduction and inclusive growth; and it demonstrates how localizing finance outside the capital cities can accelerate growth in local economies, promote sustainable and climate-resilient infrastructure development, and empower local communities. Using capital grants, loans and credit enhancements, UNCDF tests financial models in inclusive finance and local development finance; 'de-risks' the local investment space; and provides proofs of concept, paving the way for larger and more risk-averse investors.

With its capital mandate and instruments, UNCDF offers "last mile" financing models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local development. UNCDF targets low-income and underserved populations and areas in the LDCs where resources for development are the scarcest; where market failures are most pronounced; and where increased national economic prosperity does not reach a large part of the population. UNCDF focusses on local development finance and inclusive finance, using its capital mandate paired with strong technical and policy support to help communities and individuals save, borrow and invest.

UNCDF's objective is to develop inclusive financial systems in which a range of financial products are available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances).

#### **INTRODUCING DIGITAL FINANCE IN UNCDF**

UNCDF manages several initiatives in LDCs in Asia and Africa, to develop an inclusive digital finance eco-system that offers a wide range of financial services specially for low income vulnerable communities. Specifically, UNCDF provides a mix of policy, technical and financial support to a range of government and private sector actors in each country, as well as invests in research and other public goods that benefit all market actors. By supporting the development of digital finance eco-system in these countries, UNCDF aims to increase the financial security of low income and rural households through access to appropriate, affordable and secure means to receive, manage and save money.

Recently, UNCDF has formulated its strategy 'Leaving no one behind in the digital era' based on over a decade of experience in digital finance in Africa, Asia and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the Sustainable Development Goals. UNCDF will apply a

market development approach and continuously seek to address underlying market dysfunctions

## INTRODUCING UNCDF'S DIGITAL INTERVENTIONS IN NEPAL

UNCDF launched its Digital Finance interventions in Nepal in 2013 and focused on creating an inclusive environment for inception and scale up of digital financial services. UNCDF has been supporting the digital financial service providers, banks and other stakeholders in the country to develop the eco-system.

In 2017, Nepal Rastra Bank issued the Payment Service Provider (PSP) license to the first set of non-bank companies. This led to a growing number of registered customers using mobile wallets for a range of payment services. UNCDF worked with its partners IME Digital and Prabhu Pay to implement and scale last mile adoption of digital financial services. Considering Nepal is an agro based economy with more than 60% of population engaged in agriculture, UNCDF with its partners Prabhu Management, SunFarmer and Swift/IME Digital developed use cases around dairy value chain digitization, Pay-as-you-go for solar irrigation pumps, farm operations digitization and digital credit market place. These pilots provided in-depth learning on linking digital with agriculture to drive adoption of digital services at the last mile. In 2019, UNCDF under the larger FinLabs initiative, launched the Nepal AgriTECH challenge for pre-seed and established start-ups engaged in agri-tech sector. UNCDF is also closely engaged with Nepal Rastra Bank, central bank of the country to support in formulation of data-based policies. In 2018, Nepal Rasta Bank launched the Nepal Financial Inclusion Portal with technical support from UNCDF. NFIP is a data reporting and management tool that allows NRB to map level of financial inclusion in the country.

In 2019, UNCDF received grant support from International Labour Organization, to implement a project on 'improved access to finance for MSME through digital financial services in Nepal'. To achieve the desired objectives of this project, UNCDF plans to work with private sector partners as implementing partners, supported through UNCDF grant and technical assistance.

## 2. OBJECTIVE

Objective of the RFA is to identify at least two new partners like banks, digital financial service providers, IT companies or financial intermediaries who can support UNCDF achieve the following project objectives:

- Digitization of Processes and Payments in agriculture value chains for increased efficiency, transparency, security, accountability and access to finance: Agriculture value chains in Nepal are cash-heavy in terms of flow of payments between different value chain actors. The cash-based transaction does not provide any incentives for smallholders to adopt formal financial services especially digital finance. One of the critical stakeholders in the agriculture value chains is farmer cooperatives such as dairy cooperatives that are also at times engaged in savings and thrift activities. These cooperatives are a key influencer in the value chain and hold the potential to drive smallholder's adoption of formal financial services. However, with their manual process, integrating bulk payments and digital finance in agri value chains is a challenge
- To unlock financing to MSMEs and smallholder farming families, particularly women in agriculture value chains- The agriculture sector in Nepal contributes to 38% of its GDP. Yet, smallholder farmers and MSMEs that form important components of agriculture value chains face hurdles particularly in accessing

finance and credit. UNCDF is looking forward to support innovative financing mechanisms such as factoring or invoice financing for agri MSME using digital solutions. Factoring or receivables financing, coupled with the right kind of technological processes can help MSMEs generate working capital for their business needs. In markets such as India and China, factoring has gained sufficient traction as means of cash-flow financing. Nepal is yet to see factoring take off, although a few banks in Nepal are dabbling with cash-flow financing

In this context, to drive financial inclusion of smallholders and to drive efficiency of operations in value chain, UNCDF looks forward to solutions that can help (1) digitize payments between different stakeholders and (2) also transform farmer cooperatives to digital solutions-based processes such as automated milk ledger or core banking solution etc.

The **focus value chain** for both the solution is Dairy and Orthodox Tea.

### 3. ELIGIBLE PRODUCTS AND SERVICES

Potential applicants shall demonstrate that they have the capacity, skills and expertise to design and deliver products and services that will contribute to the building of an inclusive digital economy in Nepal. In order to ensure that no one is left behind in the digital era, the proposed solutions should specifically target the dairy and orthodox tea value chains and smallholders as well as MSE engaged in the chain.

The eligible products and services will include either one or a combination of the following:

- **Next-generation digital financial products** to digitize payments in the agriculture value chains. These may include bulk payment solutions for transfer of payments from wallet to multiple wallets. The partner should also offer other financial products such as savings, credit or insurance apart from basic payments services to drive adoption and usage of the wallet. The proposed solutions should focus on enhancing agent networks and building rails necessary for providing access to remote and underserved communities, while ensuring the viability and sustainability of these channel
- **Digital solutions and finance for agriculture-led** economic growth and improved nutrition across Nepal. The solutions should be designed to facilitate stakeholders agricultural value chains, including smallholders and SMEs enterprises, and seek to impact agricultural outcomes and improved farmer livelihoods. The solutions can span, reverse factoring/ invoice financing or warehouse receipts etc. leveraging digital platform and payments services.
- **Process Automation** and digitization of financial cooperatives that may include automated ledgers, core banking solutions or accounting solutions that would transform manual processes at the cooperatives. The objective would be to make cooperatives future ready to accumulate and use client data for offering better services as well as make their operations leaner and more efficient to scale up in future.

These solutions can be delivered in many ways. Such as:

- Increasing the offline presence and outreach in underserved areas of the country. This can be through the expansion of proprietary channels, partnering with aggregators or by growing agent/merchant networks with third parties.

- Strategic partnerships with organizations that have a captive customer base that could help overcome trust barriers and lead to economies of scale. For example, collaborations with NGOs, MFIs, farmer associations, out-grower schemes, agro-dealers etc.
- Strategic partnerships between banks and other financial intermediaries; or between DFS providers and digital infrastructure providers to overcome network connectivity and KYC challenges at the last-mile.

These examples are not exhaustive, and UNCDF team is excited to hear what potential applicants have in mind even outside these examples as long as your scale, commercial viability, and impact objectives are aligned. We encourage applicants to think big, think commercial, think last-mile.

#### 4. OTHER PROJECT PARAMETERS

Potential applicants shall give evidence that their inclusive solutions are aligned to the parameters listed below.

- **Target segment:** smallholder farmers in dairy and orthodox tea, micro and small enterprises engaged in dairy and orthodox tea value chains
- **Geographical scope:** Districts in province 1,2 and 5; specific location to be discussed and identified with UNCDF
- **Project duration:** Up to 9 months starting in February 2020 until October 2020

#### 5. HOW UNCDF WORKS WITH PARTNERS

UNCDF will provide technical assistance and grant support to the selected partners. The technical support would be provided by digital finance and innovation experts that are experienced in product and business model development and go-to-market strategies in some of the most challenging markets in Asia and Africa. The grant support will be based on the project requirements and budget quoted in the application.

While partners will be in the driver's seat, UNCDF will be walking the innovation journey together to find solutions along the way. Below is the support that UNCDF would provide to the selected partner(s) in driving the vision and targets set above.

- Market surveys to better understand the financial pressures, aspirations and behaviors of the target segment
- Support in designing/modifying products and services including process optimization for delivering solutions as envisioned in the project objective
- Looking out for and developing partnerships with complementary actors in the private and public sectors
- Measuring impact around financial health and [UN Sustainable Development Goals](#);
- Global and national exposure to showcase how the partner is demonstrating a business case in under-served markets;

It is important to note that one of the main objectives of the partnership is market demonstration. UNCDF and the partner will agree on learning questions and document the innovation journey and impact on customers with a view to make these insights a public good. UNCDF and the partner will have mutual agreement on the extent of data and insights that can be shared publicly.

UNCDF and the partner will sign a Technical Assistance Agreement (TAA) and Performance Based Agreement (PBA) which encapsulates all of the above.

## **ELIGIBILITY & EVALUATION CRITERIA**

Only those that meet the eligibility requirements and minimum requirements for the submission will be scored.

### **1) Eligibility requirements to apply**

- Applicant(s) shall be duly incorporated and registered according to the rules of Nepal;
- Applicant(s) should be operating in Nepal for at least 1 year;
- Applicant should have the proposed solution ready and to be launched; products in beta testing or in concept will not be considered
- Applicant(s) should have, directly or indirectly, at least 30,000 end-users in Nepal for any of their digital product(s)/service(s);
- Applicant(s) should have audited financial statements for at least 1 year;
- Applicant(s) shall not be in a state of repair or to have been the subject of bankruptcy, liquidation, judicial settlement, safeguarding, cessation of activity or any other similar situation resulting from a similar procedure;
- Applicant(s) and any of their staff or member of their board of directors shall not be included in the United Nations financial sanctions lists, particularly in the fight against the financing of terrorism and against attacks on international peace and security; and

UNCDF will conduct a due diligence on selected applicants. Applicants must have documents ready to confirm they meet the eligibility criteria, including audited financial statements, certificate of registration, certificate of compliance with the tax authorities and any other documentary evidence that might be requested by UNCDF.

### **2) Minimum requirements for proposal to be evaluated**

- Application is complete (Annex 1 Submission Format), including the 'Declaration Letter' duly signed by the applicant's legal representative;
- The strategy and project objective proposed by the applicant are aligned to the UNCDF strategy 'Leaving no one behind in the digital era' which is about building inclusive digital economies so that marginalized populations can access a range of financial and non-financial services in order to become active participants in their local economies;
- Application proposes a clear methodology, plan and project team.

### 3) Evaluation criteria

Only the applicants that will score at least 70 out of 100 will be considered successful and move to the due diligence stage. UNCDF will select at least five applicants. The criteria are as follows.

Expertise of the Firm/Ability to Implement		Points obtainable
Current customer base	Applicant already has customers in the under-served segments (e.g. youth, women, migrants, farmers) or demonstrates ability to quickly penetrate the market directly or through partnerships	<b>15</b>
Current resources	Current resources (e.g. HR, financial, infrastructure, technology, brand recognition, geographical footprint) demonstrates ability to implement the project	<b>15</b>
<b>Maximum score</b>		<b>30</b>

Understanding of the RFA and proposed approach		Points obtainable
Customer knowledge & Impact	<ul style="list-style-type: none"> <li>• Demonstrates in-depth understanding of the customer to be served.</li> <li>• Contribution of the project to reach at least one of the <u>UN Sustainable Development Goals</u>.</li> </ul>	<b>15</b>
Degree of innovation and additionality	Level of innovation in the product and approach proposed; level of additional value bring brought to the market	<b>15</b>
Scalability and financial viability	Business model has potential to scale and become financially viable over time.	<b>15</b>

Organizational capacity, commitment, & Implementation readiness	Applicant Project team has relevant expertise and demonstrates ability to implement towards project goals; Project lead has experience in managing projects that involve multiple parts of the organization.	<b>15</b>
Value for money	We will look at outreach targets as measured by # of end-users that use or are impacted by the product, and evaluate whether the proposed target is backed by sound logic (e.g. current user base, applicant's ability to deliver, financial and human resources that applicant is committing to this project etc.)	<b>10</b>
<b>Maximum score</b>		<b>70</b>

## 6. APPLICATION REQUIREMENTS & PROCESS

### 1) Structure of the Application

- Applicants **must** submit: Submission Format (Annex 1) in maximum 10 pages
- In addition to the 'Submission Format' the applicant **may supplement** the submission with 1) power point deck that outlines in a visual manner what the project and/or product is; and 2) latest annual report.
- The application must follow the template provided in Annex 1: Submission Format and be complete.
- All submissions must be completed in English.

Only applications that follow the Submission Format and include all the necessary documentation will be accepted.

### 2) Submission of the Application

- Applications should be submitted via email at mm4p.nepal@uncdf.org
- Email title: "Inclusive Innovation for improved access to finance for MSME through digital financial services"

### 3) **Application deadline: 27 January 2020** (Monday) 11.59 PM Nepal Time

### 4) Selection process and timeline

- Proposals will be reviewed and selected by a review panel;
- Due diligence will be conducted on the selected applicants to finalize the selection and supplement information on the company and proposal;



- Successful applicants will be asked to sign a Technical Assistance and Grant Agreement with UNCDF which will outline mutually agreed upon milestones and deliverables

5) Real-time assistance available from UNCDF<sup>1</sup>:

- For requests and queries send an email to **mm4p.nepal@uncdf.org** with the title 'Improved access to finance for MSME through digital financial services - Organization Name'

<b>Queries on the RFA – via emails to mm4p.nepal@uncdf.org</b>	<b>Until January 20, 2020, 5.00 PM Nepal Time</b>
<b>Replies to queries</b>	<b>January 24, 2020 (through call or email)</b>
<b>Deadline for submission</b>	<b>January 27, 2020 (Monday) 11.59 PM Nepal time</b>
<b>Review and selection by Investment Committee</b>	<b>February 2020</b>
<b>Announcement of successful candidates &amp; Due Diligence</b> <i>The UNCDF team will conduct due diligence visits companies selected by the IC.</i>	<b>Mid-February 2020</b>
<b>Negotiation and signing of TAAs with selected partners</b>	
<b>Launch of projects</b>	<b>March 2020</b>

## 7. ATTACHED DOCUMENTS TO THIS RFA

### Annex 1. Submission Format

#### Part 1. Declaration letter

#### Part 2. Project Description (Word & Excel)

1. BASIC INFORMATION (WORD)
2. ABOUT THE CORE BUSINESS (WORD)
3. PROPOSED BUSINESS IDEA (WORD)

<sup>1</sup> 1) The UNCDF team will provide assistance and feedback to companies throughout the application process. Any feedback or recommendations provided are suggestions and it is at the discretion of the applicant as to whether apply them or not. 2) Receiving UNCDF guidance during the application process does not guarantee that the proposal will be selected. UNCDF will provide the same level of support to all companies that request assistance.