* Think Impact Toolkit

Terms of Reference: Analysis of the financial system and its potential contributions to development objectives

Social Finance

Enterprises Department

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* Table of Contents

Page

[General Guidance 5](#_Toc165628655)

[Terms of Reference 6](#_Toc165628656)

[1. Background 6](#_Toc165628657)

[2. Objective of the analysis 7](#_Toc165628658)

[3. Structure of analysis 7](#_Toc165628659)

[4. Data collection and methodology 10](#_Toc165628664)

[5. Implementation and activities 10](#_Toc165628665)

[6. Deliverables and timeline 10](#_Toc165628666)

[7. Qualifications of the consultant 10](#_Toc165628667)

[8. Selection process 11](#_Toc165628668)

* General Guidance

The following **Terms of Reference** (ToR) can be used for an analysis of the financial system, and how such system can contribute to specific development objectives. They are part of the [ILO’s Think Impact Toolkit](https://www.ilo.org/resource/other/ilos-think-impact-toolkit-guarantee-instruments). The toolkit supports organizations (guarantors) which provide portfolio guarantees to financial institutions to embed impact considerations throughout their guarantee process. These ToR shall be used during the Strategic intent phase of the guarantee process, as described below. The ToR can be used for procuring a consultant to conduct the analysis.



The first step in impact management of guarantees is to define strategic impact objectives, consistent with the organization’s development goals in a country. In this initial phase, the analysis of the financial system is an important exercise to help identify how guarantees to financial institutions can contribute to mobilizing additional capital for achieving development goals in the country.

The analysis assesses the financial needs and constraints of the organization’s target groups (e.g. youth, women, refugees, MSMEs, specific economic sectors or geographies within a country, etc.) and how the financial sector is responding to these. In addition, it should consider ways in which a guarantee could support addressing (part of) the identified gaps and leverage existing and planned activities of different stakeholders in the country.

For instance, entrepreneurs with limited financial means often have fewer collateralizable assets, while rapidly growing businesses might have short credit history and operate in more volatile and dynamic markets. These factors make them less bankable propositions to risk-averse financial institutions. Guarantees, therefore, may serve as an effective intervention to reduce the risk of lending to them. However, it is imperative to note that guarantees may not always be the best solution for addressing the demand and supply gap in all markets, which is why the financial system analysis is needed at the initial stage of the guarantee process.

Finally, the financial system analysis will allow identifying potential guarantee partners. The analysis will also result in identifying intervention(s) for the target groups, and may contribute inputs in case the organization is developing a new country/regional strategy.

Before implementing the ToR and procuring a consultant, the organization should clarify the below points:

* Development objectives for the specific country
* Target groups (e.g. youth, women, refugees, MSMEs, etc.)
* Sectoral Focus
* Geographical Focus
* Theory of Change

Conducting the analysis requires multiple activities including a literature review, data collection (may involve fieldwork and interviews), as well as a validation workshop with key stakeholders (see *Implementation and activities*). Considering these activities, it is anticipated that the assignment for a single country takes approximately 30 working days, spread across three months.

Note: the following pages contain the actual Terms of Reference (ToR) – text marked in green therein must be adjusted or removed by the users of this tool to align with their specific requirements for the assignment.

* Terms of Reference: Analysis of the financial system and its potential contributions to development objectives in [country]

Background

As financial markets are vital to economic development, an analysis is warranted as to whether, how and where such markets and related support systems might be deployed to contribute to the country’s inclusive economic development. This analysis should consider the financial needs and constraints of the target groups (e.g. youth, women, refugees, MSMEs, etc.), and how the financial sector is responding or not responding to them. Particularly, it should consider ways in which the use of guarantees to financial institutions can address identified constraints and gaps while leveraging existing and planned activities of the government, donors, development finance institutions, development actors, and financial sector industry networks in the given country.

[add: short background of the organization/guarantor and motivations for the study]

The starting points for the analysis of the financial system described in these Terms of Reference are the following:

**Country Development Objectives (if applicable)[[1]](#footnote-2)**

This consultancy will focus on the following themes (e.g. inclusive economic development):

**1.**

**2**. ….

**Ultimate target groups of the study**

The focus of the analysis will be on how financial markets can reach the ultimate beneficiaries of the interventions (as defined below).

The ultimate beneficiaries of the interventions shall be:

(e.g. youth, women, refugees, MSMEs, etc.)

* XX
* XXX…

**Sectoral focus of the study (if applicable)**

The study primarily focuses on the following sectors: [sectors to be added].

**Geographical focus (if applicable)**

* Region XX
* Region XXX…

**Simplified Theory of Change (if applicable)[[2]](#footnote-3)**

**Example Theory of Change for just transition as country strategy goal:**

Assumption:

There is a potential for better and more accessible sources of financing to private sector actors towards supporting a just transition.

If:

* If private sector actors (MSMEs) get more access to finance for activities supporting the green transition such as those related to energy efficiency and renewable energy;

…Then:

* MSMEs can green their operations leading to cost reductions, development of new products, creation of jobs, improvements of working conditions and safety and health, etc.
* MSMEs will increase their competitiveness and sustainability in the long run, particularly those businesses that are export-oriented, as the regulatory and market demands related to sustainability increase.
* Financial service providers will reduce their levels of perceived risk when financing green initiatives of MSMEs

…Resulting in:

* Increased number of MSMEs using renewable energy and energy efficiency products/services for their business activities/production processes
* Increased employment opportunities as a consequence of business growth and new business operations (including among others for youth) and improved opportunities for productive jobs with decent working conditions
* MSMEs (including those run by youth and women) becoming more competitive and aligning to EU-market standards through sustainable production and creating job opportunities (including for youth and women) with decent working conditions
* Increased access to financial services for MSMEs engaging in green initiatives

The consultant shall base the analysis on the above. The consultant shall further develop and expand the theory of change to identify crucial binding constraints to be addressed through the guarantee instrument, especially with the target groups as a focus point.

Objective of the analysis

The main objective of the analysis is to provide an understanding of binding constraints in achieving the intended development objective, potential entry points and partners for interventions related to the financial sector.

To achieve this objective, the analysis covers the regulatory framework, supply and demand of capital, support infrastructure, constraints faced by the target groups in accessing financial as well as related non-financial services with a particular focus on credit.

Structure of analysis

The analysis will be divided in four parts.

Demand for finance and related non-financial services for the target groups

This section of the analysis will explore the demand for financial and related non-financial services of the target groups. It looks at the target groups’ current use of financial services (with a focus on credit), the sources and suitability of financial services used, and the barriers to access financial and related non-financial services needed.

The target groups may use and need a variety of financial services, both for productive and protective purposes. These needs may include investment in income generating activities, capital to start or grow a business, MSME finance, project finance, savings for specific purposes, solutions to cover bigger or unforeseen expenses, and transfer money to family or friends. The analysis of the economic activities of the target groups and of their use of financial services (both formal and informal) provides insights into the suitability of these services to meet their needs and thus informs room for improvement. The target groups may need a different type of financial service (e.g. saving services or insurance in addition to credit) or financial services with different characteristics (e.g. smaller/larger loan size, long or short term loans, sector-specific repayment schedule). The assessment should also identify the capacity of the target groups to handle debt. Savings and insurance might in some cases be more important than credit.

Particular attention will be paid to inequalities within the target groups, based on factors such as, gender, age, location, and others.

**Research questions to be answered in (i)**

* What are the principal sources of finance for the target groups?
* For what purposes are the target groups seeking finance?
* Are target groups applying for loans and being denied? If they are being denied, what are the reasons?
* Is the market providing finance efficiently? If not, why?
* Are other types of financing / financial services more needed? Which ones?
* What is the size of the unmet demand for credit?
* If credit is needed, what is the required/average loan size and tenure of target groups in the focus regions?
* If target groups are not seeking finance, why not?
* What are the needs of related non-financial services (e.g. financial education, business management skills)?
* Do the responses to the research questions above vary according to size, sector, gender, age, type of finance requested or other relevant characteristics?

Financial sector regulation and support infrastructure

This section covers the analysis of the regulatory framework affecting financial service providers relevant for the target groups, for example regulation related to financial inclusion, ESG (Environment, Social and Governance), green finance, social and solidarity economy finance, sustainable banking, and others. The analysis of the regulatory framework should focus on how it creates incentives or barriers to financial service providers serving the target groups.

One area of particular attention is the regulatory framework for financial inclusion. It might include specific requirements for financial service providers on transparency, financial education, collateral requirements, responsible lending practises, non-financial services, as well as regulation related to digital/mobile banking.

The analysis will look at the sources of regulation (e.g. Central Bank, Ministry of Finance, Capital Markets Authority), which are typically originating from the country itself but could also come from regional or global sources that are relevant to the target groups.

In addition to regulation, the sector’s support infrastructure plays a key role in the way actors operate. For example, credit bureaus aggregate information on credit ratings of individuals which is used to prevent over indebtedness. Other examples of support infrastructure are industry associations (e.g. Bankers’ Associations, Associations of Microfinance Institutions) and capacity building initiatives of both private and public sectors. Associations are not only a relevant source of data but can also actively drive members to improve their practices on social performance or sustainability management, as well as financial inclusion and literacy.

**Research questions to be answered in (ii)**

* Are there any legal or regulatory push or pull factors that facilitate or constrain the provision of relevant financial and non-financial products? For example, financial inclusion rules as a driver or non-performing loans ratio as a barrier?
* Which key supporting functions relevant in better performing markets are present and how are they performing? For example, risk assessment, product research and development, financial education, etc?
* What is the current external support landscape in this area including donor programmes and government support?

Mapping of financial service providers

The analysis will then move to understanding the landscape of the financial service providers in the country, considering the different formal and informal organizations providing capital, including domestic and international, public and private actors. The objective of mapping financial service providers is to identify institutions that are likely to be eligible partners for guarantee instruments, even if at this point no detailed assessment of individual financial service providers is expected. Although a full inventory of all financial service providers is likely not feasible, financial service providers can be assessed based on the criteria below:

* Type of Financial Service Provider  
  *(e.g. commercial bank, microfinance institution, development finance institution, fund, savings and credit cooperative, etc.)*
* Size   
  *(any indicator available, e.g. total asset, total loan values, number of branches, total employees, tier 1/2/3, etc.)*
* Strategy to reach target group developed   
  *(e.g. products for the target groups in place, branches in the areas where the target groups reside, agent network, mission alignment, etc.)*
* Non-financial products for the target groups provided or collaboration with other provider  
  *(e.g. trainings, entrepreneurship skills)*
* Experience working with guarantees for development, and if so, with which organization
* Additionality  
  *(e.g. is a guarantee to this financial service provider needed? Is it likely to grow their operations with the target group even without the guarantee?)*
* Technical Assistance needs

The result of the preliminary assessment can be an initial prioritization of the identified financial service providers as potential partners for the guarantee instrument (e.g. High, Medium, Low).

Understanding the current use of guarantee instruments by financial service providers in the country is of particular interest. This includes information on which actors are currently providing the instruments and to whom, as well as information on results of such interventions, if available.

**Research questions to be answered in (iii)**

* What are the key reasons of financial service providers for their level of relevant financing of the target groups? For example, history of non-performance, lack of interest, lack of experience and understanding, lack of profitability, shortage of input finance, etc.?
* What are the levels and trends in financing products relevant to the target groups? How do these vary by firm size and type, geography, age, gender, etc.?
* Who is and who is not providing finance for these target groups, including formal and informal financial institutions?
* What are the features of existing relevant products, e.g. interest rate, collateral, term lengths, marketing strategies, etc?
* Based on the assessment criteria (above), who are potential partners for the guarantee instrument?

Gap analysis and recommendations

Building on the information from previous sections, the analysis will conclude with a gap analysis and distil recommendations for further action, with the aim to describe:

* The extent and nature of the gap between the demand and supply of financial and related non-financial services for the target groups.
* The reasons for this gap, or, in other words, why existing financial service providers are not meeting the demand of the target groups. These can include issues related to lack of capital, capacities, adequacy of products, collateral requirements, regulatory constraints, and others.
* How this gap could be narrowed, i.e. under which conditions and with which incentives (financial and non-financial) would existing financial institutions be able to extend financial and related non-financial services to the target groups.
* How [organization name]’s guarantee instrument and supporting interventions can address the gaps discussed in the previous section, including, if possible, identification of potential guarantee partners (i.e. financial service providers likely to be aligned with [organization name]’s priorities and with the capacity to reach the target groups). The identification of entry points for [organization name] can include aspects related to engaging with financial service providers as well as with groups of actors or the whole sector.

Data collection and methodology

The analysis is limited to the areas of interest for reaching the specific goal as described in the Background section. Data for this assignment will be collected both from secondary sources as well as through key informant interviews, surveys or focus groups with the target groups.

Implementation and activities

To achieve the objectives, the consultant will carry out the following activities:

1. Review existing literature and data related to the objectives of this ToR
2. Identify key informants and design data collection strategy / instruments
3. Submit an inception report, including methodology and data collection, as well as how the proposed approach will lead to achieving the objectives of this ToR
4. Collect data, ensure quality of data collected (both qualitative and quantitative) including verification, cleaning and revision where needed/appropriate
5. Submit final clean data set
6. Analyze data and interpret results, including disaggregated data on the target groups
7. Draft a preliminary report and share with [organization name]
8. Implement comments received from [organization name] to produce a second draft report
9. Present the second draft report during validation workshop with key stakeholders
10. Finalize report, no longer than 30 pages, based on feedback received from [organization name] and key stakeholders
11. Deliverables and timeline

The deliverables to be submitted by the consultant are:

* Deliverables and timeline

|  |  |
| --- | --- |
| Deliverables | Deadline |
| 1. Inception report, including methodology and data collection | 2 weeks after start of contract |
| 1. Clean data set and first draft report | 4 weeks after deliverable 1 |
| 1. Second draft, based on feedback | 2 weeks after deliverable 2 |
| 1. Final report (max 30 pages) | 3 weeks after deliverable 3 |

1. Qualifications of the consultant

Suitable individuals or firms for the assignment will need to have:

* Proven track record and expertise in the financial sector in Country X, including networks, financial service providers, regulators and other key actors;
* Good understanding of guarantees and other financial instruments;
* Expertise in inclusive economic development, as well as financial inclusion and target groups
* Proven expertise and experience in financial system analysis
* Familiarity and knowledge of data collection techniques and methods (e.g. interviews, surveys, focus groups);
* Experience in developing and managing data collection in the context of the target groups (including specific locations);
* Experience in analysing quantitative and qualitative data sets;
* Advanced degree(s) or equivalent in economics, development studies, finance, or related field;
* Full proficiency in local language(s) and English, with solid writing and presentation/facilitation skills.

The technical assessment criteria for the consultant selection will consider the relevance of the above skills for performing the overall tasks, in addition to the adequacy of the proposed concept, methodology and the consultant’s understanding of the project’s objectives.

1. Selection process

Proposals must be submitted via email to xxxxx@xxxxx, mentioning as subject line “[Organization name] tender Country X” latest by DD.MM.YYYY (23:59 CEST):

The proposal should contain [to be adapted as per organization’s procurement procedures]:

1. Critical analysis of project objectives and Terms of Reference
2. Proposed concept and methodology, including:

* Methodological framework, including sampling procedures
* Data sources, including key informants
* Training of staff and enumerators, if needed
* Field work organization and logistics
* Data processing procedures
* Workplan, clearly showing project phases and their duration
* Expected support needed from [organization name] (including in terms of logistics and administrative support for data collection or workshops)

1. CV of consultant(s), with description of activities of each team member and details on the experience of consultant(s) in similar tasks or projects
2. Financial proposal, with a breakdown including workdays, transport. No other cost items will be accepted in the Financial Proposal and considered for payment

|  |  |  |
| --- | --- | --- |
| Contact details | **International Labour Organization**  Route des Morillons 4  CH-1211 Geneva 22  Switzerland | T: +41 22 799 6111  E: socialfinance@ilo.org |
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1. As mentioned in the cover note, the first step in impact management of guarantees is to define strategic impact objectives, consistent with the organization’s development goals in a given country. If the organization has an established strategy in a given country, this consultancy should align with the themes outlined in the strategy (e.g. inclusive economic development, etc.). [↑](#footnote-ref-2)
2. If the organization has an established strategy in a given country, the analysis shall be guided by the theory of change outlined in the strategy. [↑](#footnote-ref-3)