

KARANDAAZ PAKISTAN

REQUEST FOR EXPRESSION OF INTEREST

This notice is placed by Karandaaz Pakistan. You are requested to direct all your queries to the Karandaaz Pakistan office in Islamabad using the e-mail address provided below.

Country:	Pakistan
Title of EOI:	Business Plan for SME-Focused NBFC
EOI Number:	14
Sector:	Financial Sector
Issuance date of EOI:	April 12, 2019
Last date for Queries:	April 17, 2019
Response to Queries:	April 19, 2019
Closing date of EOI:	April 29, 2019
Project Duration:	6 months
Address EOI response to:	Procurement Department
E-mail Address:	procurement@karandaaz.com.pk

COMPANY OVERVIEW

KARANDAAZ PAKISTAN, a section 42 company incorporated in Pakistan in August 2014, promotes access to finance for small businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. Karandaaz Pakistan has financial and institutional support from leading international development finance institutions; principally the United Kingdom's Department for International Development (DFID) and the Bill & Melinda Gates Foundation (BMGF).

The Company has four verticals.

- **Karandaaz Capital** provides wholesale structured credit and equity-linked direct growth capital investments in micro, small and mid-size enterprises (MSMEs) with compelling prospects for sustainable growth and employment generation in Pakistan.
- **Karandaaz Digital** focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders including regulators, policy-makers, government departments, businesses and researchers and academics with activities arranged in four key work areas—Policy and Regulation, Seeding Innovation, Experimentation and Solutions Development, and Scale and Outreach.
- **Karandaaz Innovation** manages the Innovation Challenge Fund, providing risk capital and grants to partners with an aim to generate innovative solutions to complex problems in areas of financial inclusion and entrepreneurship.

- **Knowledge Management and Communications** supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions to influence markets and the financial ecosystem.

PROJECT DESCRIPTION

a) Background and Objectives

Karandaaz Capital provides capital to micro, small and medium enterprises (MSMEs) by providing various financial instruments in order to demonstrate viable financial models and products that can be taken up by commercial players. After conducting a feasibility study through a third party of its mid-term strategy, Karandaaz has decided in principle to set up a commercially driven and privately managed Special Purpose Vehicle (SPV) to leverage its capital, enable more flexibility in its capital deployment and demonstrate development impact. The NBFC will focus on providing financing to SMEs in specific sectors which have been selected using a multi-factor framework, including employment, trade potential, growth prospects, and development impact parameters.

Karandaaz Capital manages capital committed by the United Kingdom's Department for International Development (DFID). Its mission is to catalyse the development of a market for MSME finance in Pakistan. Under its current structure, the Company invests commercially directed capital for increasing the access to finance of MSMEs through:

- **Direct Investment:** An investment made directly in an SME. These investments normally take the shape of PE investments in SMEs.
- **Intermediated Investment:** Any financing not made directly by Karandaaz Capital in an SME but through a third party such as a Partner Financial Institution, DFI, NBFC or Corporate. This funding is generally through risk participation agreements (RPAs) for increasing financing to SMEs in structured supply chains of corporate entities.
- **Strategic Investment:** Any investment to set up a Special Purpose Vehicle (SPV) that focuses on creating or deepening a market for MSME finance. As of now, Karandaaz has one strategic investment i.e. shareholding in the Pakistan Microfinance Investment Company (PMIC) that acts as a wholesale financier for the microfinance sector.

As per its Investment Policy, Karandaaz Capital is required to make investments through debt or equity instruments in Pakistan based MSMEs. Its investments have to generate financial as well as development returns in the form of employment generation, specifically for women and youth, and increased revenue for SMEs. The policy provides guidance on the concept of "additionality" to ensure that Karandaaz's investments do not crowd out existing or potential public or private financing and are geared towards sectors that are starved of financing required to sustain and expand operations.

Karandaaz has adopted the following definition of MSMEs¹:

¹ This is the definition used by IFC.

Exhibit 1: Definition for MSMEs

Indicator	Micro Enterprise	Small Enterprise	Medium Enterprise
Employees	< 10	10 < 50	50 < 300
Total Assets	< \$100,000	\$100,000 < \$3 million	\$3 million < \$15 million
Total Annual Sales	< \$100,000	\$100,000 < \$3 million	\$3 million < \$15 million
An entity which meets the any two out of three conditions is classified as either			

Karandaz Capital is managed by the Corporate Investment & Credit Team (CIC) which is led by the Chief Investment Officer (CIO) who oversees all the investment activities. The Karandaz Capital team receives oversight and guidance from the Investment Committee (IC), which reviews deals pertaining to the debt and equity business and recommends investment decisions to the Board for final approval.

To move forward, Karandaz seeks to engage the services of a bidder to develop a detailed business plan, complete with sectoral focus, financial projections, risk profiling, an operationalization strategy, and post-project support for an NBFC providing financial services to Pakistan's SME sector. The NBFC, focused on SME financing, will be either a wholly or partially owned (but independently managed) subsidiary. This is based on recommendations in the feasibility conducted by a third-party, which included a review of the SME landscape (from a demand and supply side perspective), and suitable NBFC structures.

A business case for a specialized entity exists not only based on the demand for financing in the SME sector and the size of financing required, but also on the need to develop and demonstrate successful SME lending models. For Karandaz, a specialized NBFC will provide an opportunity to become a catalyst for change by demonstrating that the SME market is commercially viable if tapped with innovative approaches. The objective is to create a sustainable NBFC in the long run which is capable of crowding in private commercial capital through various financial instruments. Karandaz's target is to register, obtain license and capitalize the NBFC by December 2019.

b) Scope of Work

This assignment will be broken down into the following phases:

Inception: Understanding Existing and Proposed Role of Karandaz Capital *vis a vis* SME Financing in Pakistan

Develop an understanding of Pakistan's NBFI sector, and the experience and current business of Karandaz Capital by reviewing:

- a. Findings of the Feasibility Study, including developing an understanding of Pakistan's SME market (demand and supply side);
- b. The results of market penetration strategies employed (supply chain financing, risk participation agreements with FIs, and direct to corporate) by Karandaz Capital;
- c. Proposed investment strategy. This will also include:
 - i. Validating and critique the tentative Business Case developed by Karandaz in terms of products, sectors, geographic focus and delivery channels²;

² CIC Strategy Presentation December 1, 2018. Reference KRN Strategy Session papers.

- ii. Validating and refining where necessary, the sector selection methodology developed by Karandaaz to focus on 3-4 sectors/clusters³;
- iii. Validate the potential market size of the opportunity for the proposed NBFC
- d. Understanding Karandaaz's sponsor and Board expectations.

This understanding will become a basis from which the successful bidder will be expected to provide avenues for Karandaaz to pivot, focus and further increase its penetration in the SME sector through the establishment of a specialized NBFC.

The successful bidder will be expected to hold discussions with but not limited to the following: Karandaaz's sponsor (DFID), the Karandaaz Board and Investment Committee (IC), CEO and CIO and relevant personnel in SBP, SECP, Chambers of Commerce, Trade Associations, banks, NBFIs and potential SME clients.

Phase I – Market Analysis and Business Model

The successful bidder will prepare a detailed business plan covering a period of five years. The proposed structure is as follows:

- a. Competitive environment of the proposed NBFC;
- b. Vision, Mission, and Strategic Goals and Objectives of the entity;
- c. Analysis of each of the Validated Sectors by covering the following but not limited to:
 - i. Total size of the sector(s);
 - ii. Expected growth in the sector along different parameters;
 - iii. Segmentation of entities within each sector by size & type;
 - iv. Capital requirements (Sector and Entity type size wise);
 - v. Business model of different segments of entities within the sector and value chain analysis;
 - vi. Key players and corporates in the value chain;
 - vii. Key sectoral challenges;
 - viii. Sector-wise financial product portfolio with details of each product and its pricing;
 - ix. Investments - Proposed Sectoral and Product Mix;
 - x. Target Partner Institutions; and
 - xi. Need for Technical Assistance/Demand-side interventions in sector(s).

Phase II – Product Portfolio and Channels

- a. In this phase, the successful bidder will develop a product portfolio for each selected sector after deep customer analysis while keeping in view the relevant factors such as business need, financing cash flow cycles etc. It should include inter alia:
 - i. Optimal mix of term loans, working capital;
 - ii. Proportion of secured vs. unsecured loans; and
 - iii. Risk Assessment Criteria in case of product programs.
- b. The products should be flexible and differentiated from the existing products in the market. The successful bidder should also make an assessment on how the products will affect the channel strategy and adoption of technology.

³ This framework narrows the organizational focus within commercially viable and high growth/high impact sectors e.g. auto parts. It is based on parameters such as credit penetration, employment indicators, number of operational SMEs, export potential/import substitution potential, and domestic demand.

- c. Detailed Channel Strategy on how to reach the end customers based upon the segmentation - optimal mix of retail and wholesale operations, digital outreach vs. branch network etc.

Phase III – Financial Model

- a. Based on the market analysis and business model, the successful bidder will develop a set of scenarios comprising of different parameters such as market growth rate, geographical focus, risk, socio-economic impact etc. The successful bidder will present the scenarios to the client for selecting a few them that can be further expanded.
- b. A detailed financial model which provides financial projections (expected returns, operations cost, margin, breakeven point) using different scenarios will be prepared for base case, high growth and low growth.
- c. The financial model will have to be flexible in terms of its assumptions and certain key variables (e.g. loan pricing). The model should be able to perform sensitivity analysis to measure the extent of change in variables and underlying assumptions which affect the cash flow forecasts. The model (in Excel format as well as part of the text in the Word Doc Report) should also include:
 - i. Product wise revenues
 - ii. Leverage levels
 - iii. Loss assumptions/NPLs
 - iv. Operational costs
 - v. Capital expenditure

Phase IV – Financing Strategy and Capital Structure

In this phase, the successful bidder will carry out detailed analysis of the financing strategy and capital structure of the entity. This will include support on:

- a. Equity capital base required for the company based on market opportunity;
- b. Optimal capital structure of the entity in view of taxation and credit rating;
- c. Develop a plan to attract target capital sources for the NBFC apart from Karandaaz sponsorship;
- d. The feasibility of securitization & refinancing within the regulatory space of Pakistan; and
- e. Specify key parameters for achieving a good credit rating for the entity at the inception phase and develop a plan for NBFC to achieve the target rating.

The financing strategy and capital structure should be formulated based on: provision of debt financing (average loan sizes and disbursements), deal flow, growth of capital, expected losses, non-performing loans and tax implications.⁴

Phase V – Operationalization Plan of NBFC

This phase will cover the operationalization plan of the NBFC. This plan will cover:

- a. **IT systems requirement:**
 - i. Financial applications, MIS and CRM systems

⁴ The structure should also take into account the existing credit business lines of Karandaaz Capital – subordinated debt agreements, supply chain financing, and risk participation to clearly demonstrate the extent to which the existing credit business will be absorbed into the new entity.

- ii. Product based systems such as systems for invoice discounting, supply chain financing and leasing etc.
- b. **Regulatory Compliances and Taxation:** The successful bidder will provide advice on regulatory approvals, tax implications and reporting requirements. Furthermore, any regulatory, accounting and taxation implications for the parent company should also be identified.
- c. **Human Resource Requirement:** The successful bidder will design the organisational structure and specify the type of professional staff that will be required for the newly set up NBFC including their job descriptions and compensation strategy as well as the type of skill set required for attracting commercial capital. This should include an assessment of initial staff required based on IT systems, branch network and reporting compliances. The HR plan should include how the requirements of the staff will evolve as per each of the selected scenarios.
- d. **Core Customer Base:** The Operationalization Plan will also propose strategies for accessing a core customer base for the NBFC. The plan should also identify quick wins for the NBFC i.e., the initial deal flow in the selected sectors.
- e. **Corporate governance structure:** The successful bidder will specify the appropriate corporate governance structure of the NBFC.
- f. **Impact Assessment Framework:** The Operationalization Plan will also propose how to embed an Impact Assessment Framework in the IT infrastructure to keep Karandaaz Pakistan apprised of the progress of the NBFC on development goals.
- g. **Risk strategy:** The successful bidder will prepare a detailed risk matrix including, sectoral, credit, liquidity and market risk associated with proposed risk mitigation strategies.

Phase VI – Project Support for Setting up NBFC

In this phase, the successful bidder will provide support to Karandaaz for setting up the entity and rolling out the operationalisation plan. During this phase, the successful bidder will prepare a detailed work plan consisting of activities, timelines, and responsibilities. The Project Management Unit (PMU) established by the successful Bidder will provide support to Karandaaz to make the entity ready for serving customers including the channel strategy, roll out of branches etc. The project plan will be the key project management document for the program team to be used for establishing the NBFC and operationalizing the Business Plan.

c) Project Deliverables

The successful bidder will complete the following activities and submit the following deliverables (in MS Word, MS Excel and PowerPoint):

- Contract finalization and Kick-off Meeting with KRN team and meetings with Steer Co (at pre-inception stage; for presentation and approval of all deliverables);
- Inception Report after the inception phase;
- Business Plan and Scenarios;
- Financial Model;
- Operationalization Plan;

- In-person presentation to the Karandaaz Management, Karandaaz committee and the Karandaaz Board (as required);
- Final Business Plan (including financial model based on feedback from the Karandaaz Management, Board and Sponsors) and Operationalization Plan; and
- Post project support plan for operationalization of NBFC.

The successful bidder will establish a project management unit (PMU) that will coordinate closely with a project Steering Committee (Steer Co) during all the phases.⁵ All deliverables will be presented to, and approved by the project Steer Co. The project Steer Co meetings will be convened by Karandaaz in close coordination with the successful bidder at regular intervals. The successful bidder will provide minutes of all meetings held with the Steer Co and document all major decisions and guidance.

d) Preferred Bidder Characteristics

The bidder will bring the following key elements, listed in no specific order of priority:

- Prior experience in setting up special purpose vehicles (SPVs). Experience of setting up SPVs with a double bottom line objective – commercial and developmental and/or experience of setting up SME-focused SPVs will be considered a significant advantage;
- Knowledge of SME lending programmes from developing countries;
- In-depth knowledge of SME ecosystems and the stakeholder groups and sector infrastructure required to ensure success (knowledge of robust SME sectors in the region and/or other developing economies will be considered an advantage);
- In-depth and up-to-date knowledge of current financial technology platforms, and how those IT platforms can be used for operationalising credit products for SMEs;
- In-depth understanding of the issues faced by SMEs in developing countries to access finance;
- In-depth understanding of financial sector regulatory regimes in Pakistan and/or similar; jurisdictions/developing economies;
- Ability to assemble a strong multi-disciplinary team, with extensive on-ground presence of relevant experts, to be able to provide a holistic and actionable Business Plan for the proposed NBFC;
- The team must include experts with accounting and taxation knowledge;
- All the proposed team members of the bidder will be approved by Karandaaz and the bidder must demonstrate the ability to contextualise the assignment under the local conditions;
- Very strong analytical, writing and presentation skills;
- Availability within the stipulated time frames for the assignment; and
- Experience of completing similar assignments; and developing detailed Business Plans for Special Purpose Vehicles and Financial Institutions.

e) Documents to be submitted for EOI (Pre-Requisites and Project Brief) and Evaluation Criteria

1. Bidder must submit documents in response to this Expression of Interest (EOI) either as a single entity or a consortium comprising of a lead entity and one or more partners.

⁵ The SteerCo will be constituted by Karandaaz Pakistan and will have representation from KRN Board and Management, DFID, and any other entities deemed necessary.

2. If bidder is a consortium, there must be a lead entity appointed through a letter executed by all consortium partners individually, authorizing the lead entity to act on their behalf and to enter into legally binding obligations.
3. In the event the bidder is a consortium, all communications and correspondence shall be routed through the lead entity. Karandaaz Pakistan shall only correspond with the lead entity and as such delivery of any notice, information or other correspondence to the lead entity shall be deemed delivered to all the partners of consortium.
4. An entity can participate only in one bid: as a single bidder, as a lead in a consortium or as a partner in a consortium. Partnership firms or similar entities in different jurisdiction which work under common brand name or a part of affiliated network will be regarded as single entity and may not participate in more than one bid. Similarly associates and subsidiaries of an entity will be regarded as a part of a group and may not participate in multiple bids. Bidders may ask for clarification and any decision in this regard by Karandaaz shall be deemed to be final.

e.1 Pre-Requisites . To establish eligibility, the bidders shall complete all eligibility requirements as set out in this document supported by verifiable documentary evidence. Bidders without complete supporting documentary evidence, as required under this EOI, shall be considered non-responsive and shall be rejected.

1. The single or the lead entity, in case of consortium, should be officially registered as a legal entity (in Pakistan or elsewhere) and have a valid tax registration number.
2. Letter of Expression of Interest from single entity or the lead entity, in case of consortium.
3. In case of consortium, letter to be signed by authorised personnel of each partner in the consortium authorizing the lead entity to act on their behalf and enter in to legally binding agreement.
4. For the most recent fiscal year, provide audited financial statements and/or income tax returns filed with the tax authorities and/or the letter from the external auditor and/or from CFO confirming the revenues and that the accounts have been audited. In case of consortium, the information should be provided for all the partners.
5. Provide complete profile of the single entity or lead entity and its partners, in case of consortium. This should include: company name, address, phone number, email, office locations, type of organization, details of Board, Management Team, Organogram, Office addresses, Website, etc.
6. Commitment to make the project team available on-site as required by the assignment. In case of consortium, the commitment should be provided by all the partners. The proposed team members should be able to travel to Pakistan; nationals from countries who face visa restrictions in Pakistan should not be included in the proposed team.
7. Undertaking declaring that bidder has not been blacklisted by any Govt. agency / authority. In case of consortium, the undertaking should be provided by all the partners. Entities blacklisted or currently under the blacklisting process by Karandaaz are not eligible to submit a bid.

The documents should be sorted and bound in a single booklet, complete with a table of contents. The envelope containing the booklet should also contain the complete checklist (see **Section h** below). The envelope marked “Pre-requisites” should be sealed and must contain two hard copies of the documents specified above. Bidders who do not provide the information stated in pre-requisites above will not be considered for the Project Brief Evaluation.

e.2 Project Brief: The document should provide the following information, strictly adhering to the specified page limit (no more than 10 pages: font 11, single-sided; No annexes). To establish its qualifications, the bidder shall provide the information requested in the corresponding sheets, evaluation criteria, etc. in the form of verifiable documentary evidence.

- a. Relevant past experience: Maximum two similar assignments preferably in a developing country (choose relevant experience in light of proposed scope of work for double-bottom line SPVs demonstrating understanding of and knowledge of local/developing country SME markets and ecosystems, support on strategic direction and project execution towards successful implementation of business plan)
- b. Financial capability and profile of the bidders (single entity or lead entity and its partners, in case of consortium)
- c. Comments on the Scope of Work and understanding of the assignment
- d. Profile of key project team members which highlight expertise related to the proposed scope of work; a mix of local and international expertise will be preferred (name, designation and organization; past experience; proposed role in project)

Bidders who meet the pre-requisites and are evaluated successful by Karandaaz will be invited to submit a detailed Technical and Financial Proposal.

f) Expected Timeline

Relative to start date, the project completion time is six (6) months. The tentative timeline for bidder selection is as follows:

Advertisement of EOI	April 12, 2019
Last date for Queries	April 17, 2019
Response date of Queries	April 19, 2019
Closing date of EOI	April 29, 2019
Shortlist bidders based on EOIs	May 7, 2019
Send out RFP to shortlisted bidders <i>Active Duration: 3 weeks</i>	May 10, 2019
Review proposals, bidder meetings	May 31 2019
Inform bidders of final decision	June 15, 2019

g) Institutional and Organizational Arrangements

The selected bidder will report to Director Knowledge Management and Communications at Karandaaz Pakistan or such other person as may be specified.

h) Checklist

The following checklist should be included in the package marked “Pre-requisites”.

Sr. No	Required Documents	No. of Hard Copies to be Submitted	Checkbox
Prerequisites			
1	Copy of Company Registration (Single entity or Lead entity)	2 hard copies	<input type="checkbox"/>
2	Copy of Tax Certificate (Single entity or Lead entity)		<input type="checkbox"/>
3	Letter of Expression of Interest (Single entity or Lead entity)		<input type="checkbox"/>
4	Authority letter in case of consortium (Partners of consortium)		<input type="checkbox"/>
5	For the most recent fiscal year audited financial statements and/or income tax returns filed with the tax authorities and/or the letter from the external auditor and/or from CFO confirming the revenues and that the accounts have been audited. (Single entity or Lead entity and its partners)		<input type="checkbox"/>
6	Complete profile of the single entity or lead entity and its partners, in case of consortium		<input type="checkbox"/>
7	Commitment letter to make the project team available (Single entity or Lead entity and its partners) – Annex A		<input type="checkbox"/>
8	An undertaking stating that the bidder(s) has not been blacklisted/debarred by any Govt. agency / authority (Single entity or Lead entity and its partners) – Annex B		<input type="checkbox"/>
9	Any other document attached, please specify		<input type="checkbox"/>
Project Brief			
1	EOI Project Brief	4 hard copies	<input type="checkbox"/>

RESPONDING TO THIS REQUEST

EOIs must be marked with **EOI # 14 “Business Plan for SME-Focused NBFC”** and submitted electronically format (USB or CD, as a soft copy) at or before 05:00 PM Pakistan Standard Time, April 29, 2019 and also by e-mail at:

procurement@karandaaz.com.pk.

The hard copies must be received or post-marked by April 29, 2019. Hard copies will be posted to:

1 E, Ali Plaza, Nazimuddin Road, D-Chowk, Islamabad, Pakistan.

The “Pre-requisites” and “Project Brief” must be submitted in two separate sealed envelopes as follows:

Prerequisites – 2 hard copies, clearly marked “Pre-requisites”.

Project Brief – 4 hard copies, clearly marked “Project Brief”.

Both sealed packets should be sealed in one large packet bearing the name and address of the bidder and clearly marked “**EOI 14**” for “Business Plan for SME-Focused NBFC”.

Documents in response to EOI after closing time and date will **NOT** be considered.

Annex - A

[LETTERHEAD OF THE ENTITY]

UNDERTAKING REGARDING AVAILABILTIY OF THE PROJECT TEAM

It is hereby certified by **[Name of Organizations]** that the proposed team members mentioned in the Expression of Interest (EOI) and any subsequent project team members will be made available at the project site as per the requirement of the project.

In case of replacement of any proposed team member under extenuating and unforeseen circumstances a resource person with similar or better qualifications and experience will be made available after prior approval of Karandaaz.

Name of Signatory:

Signature of Authorized Signatory

Date: __/__/__

Company stamp:

Annex - B

[LETTERHEAD OF THE ENTITY]

UNDERTAKING REGARDING NOT BEING BLACKLISTING

It is hereby certified that, **[Name of Organizations]** has not been blacklisted by any Govt. agency / authority **as on [Date]**. The Organization will immediately inform Karandaaz in case of any change in the status any time hereinafter.

Name of Signatory:

Signature of Authorized Signatory

Date: __/__/____

Company stamp: