



Call for Proposals

The Sakcham Access to Finance for the Poor Programme (Sakcham) invites all interested Nepalese Institutions - Financial Institution (FI), Mobile Network Operator (MNO), Payment Service Provider/Operator (PSP/O), Agent Network Manager (ANM), Merchant Network Manager (MNM) or a consortium between any of these entities to submit Full Applications for the design, development, and rollout of innovative financial products and services to deepen the financial access for the Micro, Small & Medium Enterprises (MSME), un/underserved rural poor, women, youth and members of disadvantaged groups (DAGs) in Nepal. Access to affordable financial services is crucial to unleash the potential of the poor and lift them out of poverty. Sakcham offers support to partner institutions through knowledge sharing, technical assistance, and funding through its risk and cost sharing mechanism under the Challenge Fund programme to tackle the issues complicating access to finance in Nepal.

This Call for Proposal solicits creative proposals that propose new financial products and services to be implemented at a large scale through innovative, accessible and efficient service delivery channels enabled by technological advancements. In the past one year, Sakcham has partnered with 16 leading financial institutions of Nepal to successfully implement a number of new business models that are enabling the introduction of innovative financial products and services for over 9,900 households (including large number of women and DAGs) and 674 MSMEs in 14 districts of Nepal.

This follow-on RFP aims to build on the above-mentioned successes to deepen the goals of financial inclusion through increased product, service and delivery channel innovation aimed at improving livelihoods as well as generating increased employment. Sakcham will support the partner institutions to replicate innovative financial business models that have proven to be successful in other regions to expand the horizon of access to finance. Applicants are also encouraged to partner with other financial/non-financial institutions—including technology-based providers—to propose innovative ways for reaching rural and remote communities.

Enclosed with this letter is the Request for Proposal (RFP) to guide interested bidders in drafting and submitting their Full Applications. The TOR will provide a framework and guidance on the type of products and services that Sakcham would like to see being addressed in the proposals along with illustrated examples of innovative products and services (delivery channels and methodologies) that have been adopted by other financial institutions in different countries with similar development characteristics to Nepal. We thank you in advance for your interest in Sakcham's activities and look forward to receiving your Full Applications at fundmanager@sakcham.com.np by **March 31, 2016** for innovative financial services and products.

Sincerely,

Baljit Vohra

Team Leader

Attachment: Request for Proposal



Request for Proposal – Mobile Financial Services

1. Introduction

1.1. Background

Banking industry has seen significant challenges in expanding its network to the rural population and enterprises due to the obvious challenges that come with a lack of infrastructure, difficult terrain, sparse population and low economic activities in such regions. Despite 78 years of formal banking history, it has only seen around 30% market penetration by formal banking with 2,722 bank branches (A, B and C class banks combined) and 1,800 ATMs across the country¹. High setup costs have made branch expansion slow and inefficient while physical infrastructure remains a limiting factor for growth.

Mobile phones have a relatively short history in Nepal with its first introduction in 1999. In a short history of only 17 years, Nepal's tele density has exceeded the 100% mark². Mobile phones and mobile networks have been widely used as a means for financial services all over the world in recent time with remarkable success in some developing countries, even those with similar in terrain and economic size to Nepal. Mobile Financial Services are seen as a cost effective and convenient means to expand financial access to remote and difficult terrains without having to create a new infrastructural base to setup new banking touch points.

While there have been multiple efforts from several banks in Nepal to deploy financial access through mobile phones as a delivery channel, none have been able to create a significant impact to influence the rural economy and its progress. In other words, no initiatives have achieved scale in terms of outreach and financial activities in the system.

1.2. Challenges and Opportunities

The geographic terrain of Nepal, where even road access is a challenge, is a big hurdle for the financial sector to overcome and improve financial access to remote and rural parts of the country. It is the same for internet connectivity, and other logistical issues. The economic size of the markets and lack of sizable business avenues in these locations have restricted the wider range of financial systems mainly in the urban and semi-urban regions of the country.

While there are multiple cooperatives and microfinance institutions present in rural Nepal to serve the target communities, they operate in isolation and only service a limited array of financial products. Penetration of financial services is especially weak in the hilly and mountainous region where scattered population, physical and connectivity infrastructures are seen as the primary hurdles. Presence of a digital eco-system that mobile financial services could foster is something which can mitigate this geographic barrier to a very large extent.

Setting up a network infrastructure that links the rural economy with the more urban sophisticated financial system could be a big challenge; both, from the perspective of investment size and time/work required to develop this. However, mobile telephone towers are already deployed in

¹ Quarterly Economic Bulletin, Mid July 2015, Nepal Rastra Bank

² Nepal Telecom Authority, MIS Report, 17 July 2015-17 August 2015



a majority of locations and there is potential to ride on this network, thereby reducing the need for further capital investment for the expansion of financial services.

The barrier between the rural economy and the formal banking system thus poses difficulties in linking rural markets with urban markets into a common system. While financial instruments which are popular in the urban markets may not have any means to operate in rural markets; and, financial services available in the rural markets have little or no access to the major financial institutions in the country. The only link between urban and rural economy at present is through physical cash transactions.

2. Objective

The objective of this request for a proposal is to solicit proposals from potential partners such as banks and other financial institutions, payment service providers, payment service operators, agent network managers, and telecoms (or a combination of these businesses coming together); to introduce/establish a national scale mobile financial service solution, along with related omnipresent agent and merchant networks for product and services rollout, aimed at improving access to finance in Nepal. The value propositions could include solutions aimed to facilitate individual retail payments, access to some form of credit, ability to make various bill payments digitally or access to various other financial services, including: insurance, savings options, investment options, etc. or a combination of these various facilities.

This RFP also aims to link urban markets with rural markets whereby rural economic activities find better access to directly connect with urban markets and vice versa; and facilitate financial products and services for rural poor and MSMEs.

It's within Sakcham's mandate to support those potential partners willing to make an impact by doing business differently and develop tailored financial products and services to the specific needs of the rural poor, disadvantaged groups (DAGs), women, youth and MSMEs. We encourage adoption of new ideas, innovation of methods, use of technology, calibration of alternative delivery channels drawn from domestic experience, as well as regional and international best practices, that are more efficient at bridging the gap between demand and supply of financial service delivery.

The objective of our RFP aligns with one of the core objectives of the monetary policy of Nepal Rastra Bank (2015/16) which aims to advance the campaign of 'One household, one bank account' that builds on the Government's budget for the current financial year. Moreover, the monetary policy has adopted a strategy to encourage alternate delivery channels (such as branchless banking) in addition to traditional channels (such as physical branches) in the geographical areas with low financial access. Sakcham's objectives illustrated through this TOR conforms to the Government's Financial Inclusion Policy.

In year two of the programme, Sakcham is will be working in many districts across the country, where there is evidence of poverty in those districts and/or a clear lack of financial services to service the unbanked or underbanked. While bidding companies are encouraged to target such districts, Full Applications/Proposals for innovative ideas that can be replicated in all districts of Nepal will also be entertained.



3. Who can apply?

Any Nepalese (registered anywhere in Nepal) Financial Institution (FI), Mobile Network Operator (MNO), Payment Service Provider/Operator (PSP/O), Agent Network Manager (ANM), Merchant Network Manager (MNM) or a consortium between any of these entities are invited to submit their proposal. Bidders are highly encouraged to collaborate and form partnerships with national and international champions of the innovative financial services and value chain actors.

Financial institutions that do not currently have presence within the stated geographic areas are required to demonstrate willingness and a detailed plan to expand their operations sustainably in those areas with the help of Sakcham. International or regional organisations can also apply, provided they have a Nepalese partner.

Entities that apply need to demonstrate they are a “going-concern”, and can show three years of unqualified audited accounts.

4. How to Apply?

Please contact Sakcham Challenge Fund Manager at fundmanager@sakcham.com.np or visit Sakcham's website <http://www.sakcham.com.np> for Full Applications Format. It will be made available electronically through email, upon request. Applicants are requested to submit Full Applications within deadline date of this RFP.

All Bids must be submitted electronically. Bidders will be asked to make a presentation of their application to Sakcham, before it is submitted to the Independent Assessment Panel (IAP) for final decision.

5. Modality

The proposed new window of S-CF will be an extension of its normal Challenge Fund activities, but will cover the areas proposed by the Sakcham Programme based on the findings of the Year 1 annual review. Details of the Enabling Financial Transformation Window are summarised in the Attachment I.

6. Project Eligibility

In order for proposals to be eligible for further consideration, projects should demonstrate the following:

- Innovative, efficient and sustainable ways to deliver financial services for the unbanked or underbanked low income, poor and disadvantaged people
- Transformational and game changing product; services and delivery channel platforms
- Practical projects with outstanding outputs and impacts
- Technology enabled projects that promise high outreach
- Projects that are likely to take longer period to be fully implemented without grant support

7. Proposed Approach

Mobile Financial Services, in Nepal, could take a two-pronged approach. First, there is the need for a technology infrastructure to host potential products on it. The technology could come from



a Payment Service Provider (PSP), Payment Service Operator (PSO), a Bank or a combination of Banks jointly investing in such a system. Whatever the modality, Sakchyam is keen to see the potential to scale the system at national level for the entire gamut of retail financial services. Sakchyam is also looking for a system that brings interests of potentially all the players in the MFS business viz. FIs, Telecoms, Technology Providers, PSP/Os, ANMs, etc. gambit

While the right platform will ensure a feasible infrastructure for the mobile financial services to ride upon, there is equally pressing need for a Bank and Financial Institutions or a group of Banks to deploy its services on such a platform for it to be meaningful and sustainable. The Banks may choose to establish the MFS environment with omnipresent agent and merchant network, or use strategic partnerships to outsource such functions. However, Sakchyam is interested to see Banks owning the project as a lead and driving it forward. Sakchyam will be keen to see innovative partnerships and ideas that will offer solutions to the problems that the consumers at large are facing and are not solved by the existing financial services on offer already in the market.

In addition to the technological solution and eco-system setup, there will also be a need to invest in MFS literacy and promotion. Sakchyam recognizes that MFS is a new technology based solution for the audience that is currently used to and comfortable with cash as the basic means for everyday financial transaction. Bringing about a behavioral change requires more than just the right products and systems in place. It requires knowledge, acceptance and confidence, followed by a trial of the system before they start to use it, and appreciate the actual benefits it has to offer. This requires significant investment in the education and promotion of mobile financial services.

In this context, Sakchyam realizes the need to have multiple entities working together to create a new digital financial eco-system that is more efficient, convenient and available for the national economy at large to enjoy.

7.1. Innovation

Sakchyam is keen on the establishment of Mobile Financial Services eco-system in Nepal for the basic purpose of bringing efficiency to the Nepalese Financial Industry. From the investors' perspectives, the cost of operations and deployment must decrease, while the market penetration should be deeper than the Banks and Financial Institutions (BFIs) have been able to reach at present.

From the consumers' perspective, there should be meaningful and clear values in the solution that mitigates the consumer 'pains' that the existing BFIs have not been able to address. The system should be able to make existing services more efficient, while introducing newer benefits to the consumers at the same time.

Nepal has a fairly pervasive remittance network across the country and the cooperative revolution has ensured sound penetration of rural markets through basic credit and savings services through the Savings and Credit Cooperative Societies (SACCOS). A product suite that does not offer any new values or benefits cannot be considered innovative. It must have an element of improvement, efficiency and cost effectiveness to be considered worth investing in.

7.2. Remittance

Mobile Financial Services have been most popular and successful when placed around remittance services – whether domestic or international remittance. However, such success has been more prominent in economies where other formal avenues to remit money were either



sparse or non-existent. In a market like Nepal, where remittance industry is already mature and competing (based on who slides faster down the learning curve), having remittance in the menu of services is a necessary but insufficient condition for the system to be successful.

There is a need to find innovative ways to make remittance more convenient, and to build additional values on the remittance model to make it attractive enough for customers to switch from their existing practice in remitting money, to this new approach that they will have to learn as well as feel comfortable in using.

7.3. Access to Credit

Services like bill/utility/merchant payment, remittance and savings are the basic products generally promoted under mobile financial services worldwide. However, in Nepal's context, except for a need for merchant network and system enabled utility partners, basic financial services are fairly available. Moreover, credit is also an accessible product – thanks to revolutionary expansion of the credit cooperatives across every sizable village in the country.

However, credit provided from local community based institutions like cooperatives remains expensive and sparse! This means, only very high return business projects become feasible at such high cost of funds. This high cost of credit makes a lot of enterprising opportunities unfeasible. It also means that basic consumables are less affordable than they would otherwise be.

While simple access to a credit service might be acceptable in the general context, access to credit on the MFS platform also needs to be cheaper than the conventional rates prevalent in the market. MFS will bring benefits of systemic efficiency, and lower cost of credit will demonstrate this.

7.4. Value Chain Linkages

MFS brings unique advantage of ubiquity and omnipresence that existing mechanisms have failed to obtain for various reasons. This is a unique opportunity to link a multitude of economic value chains together. Based on the flow of funds in various industries, and by making a conscious effort to bring every stage within a particular value chain into the system, the system should be attractive enough to encourage the use of this system for their business transaction. Of course, this can only happen when users find a significant value to switch from their existing mechanism to MFS.

7.5. Access to Other Financial Products

There still are a multitude of financial products that can have innovative adoption in the MFS space. Sakcham is keen to see a gamut of financial products on the MFS platform being used by interested BFIs. Banks need to find innovative ways and careful adoption of convenient technology and interface to make it reasonably comfortable and adoptable by the market.

7.6. Commercial Viability

The proposals need to demonstrate that the proposed solution is commercially viable in the long term. Along with the technical solution, there should be a financial model which shows that the proposed system can generate enough income after three years, to run and maintain the system as well as provide the host of support services needed for the system to be acceptable to the target beneficiaries. Such services would be the financial literacy needed for beneficiaries to understand MFS.

7.7. Sakcham's Contributions

Sakcham is interested to support projects that are capable of making a significant and commercially sustainable impact in the Mobile Financial Services space in Nepal. Sakcham will

give support for up-to three years. It will bring in technical assistance, as well as invest up to certain percentage (generally within 50%) of the total project cost of the proposed solution. Applicants may look at the proposed components of Technology/System development and that of the eco-system development jointly or as an independent projects that will complement each other.

8. Ranking Criteria

Full Applications are appraised as to the degree they satisfy the following criteria:

1. **Number of Beneficiaries reached:** Projects should target to provide financial services to the large number of unbanked/underbanked population. Key indicators for this assessment are:
 - improved livelihoods and incomes
 - new, innovative products and service
 - widespread coverage specially districts lacking in financial services
2. **Sustainability:** Projects should demonstrate that it will be commercially sustainable within the period of 3 years and bidders are willing to continue the programme beyond the project period for commercial motive. Key indicators for this assessment are:
 - commercial viability of project
 - bidders financial health, capacity and capability to deliver the project
 - governance of the bidder
 - built-in plan indicating how the bidder will achieve sustainability
3. **Actors in Value Chain:** Bidders should provide a role to all key players in the financial system value chain. Stand-alone systems or modalities benefiting only a few entities should not be proposed. Key indicator for this assessment is:
 - capability to integrate various actors in the value chain to benefit from the financial product or service
4. **Market Failure/Missing Market:** Project should be governed by the principle of Theory of Change to address the Market Failure or Missing Market situation. Key indicators for this assessment are:
 - degree to which beneficiaries benefit from addressing the market failure/missing market
 - the level of risk reduction strategies put in place to mitigate programme specific risks
5. **Scalability/Speed of Implementation:** Bidders should propose the projects that can be scaled up easily after implementation within a 3 year period and project activities should start immediately after the funding decisions are made. Key indicators for this assessment are:
 - Potential to scale up projects
 - Clear implementation plan and schedule
6. **Additionality/ leverage:** Bidders should seek Sakchyam Challenge Fund support as catalyst to unlock large investment from the private sector. Project should demonstrate Value for Money (VfM) for the total investment. Key indicators for this assessment are:
 - extent of new private sector sources mobilised (directly from the bidder, and indirectly) as a result of the project
 - degree to which the project would only happen with S-CF funds
7. **Project Governance and Management Structure**
 - Quality of Project Management team
 - Governance structure to oversee large investment projects
 - Proven experience in managing large projects that involve a large number of participating institutions/entities and beneficiaries

Attachment I: Summary Sheet: Sakchyam CF – Enabling Financial Transformation Window

1	Name	Sakchyam Challenge Fund – Enabling Financial Transformation Window
2	Objective	<ul style="list-style-type: none"> • Replication and upscaling of potential transformational projects from the Sakchyam Programme Year 1 initiatives. • Engage different types of financial service providers, e.g. BFIs, insurance, remittance companies and technology service providers to develop and introduce new and innovative delivery channels and financial products and services. • Introduce mobile financial services platforms for nationwide coverage as well as related omnipresent agent and merchant networks for product and services rollout. • Introduce new value chain financing models and replicate the existing value chain financing models to new industries/geographies. • Introduce innovative and embedded financial education /literacy products and services (preferably technology based)
3	Districts of implementation	Bidders are encouraged to develop projects that have potential to be implemented in all the districts of Nepal including key pockets of poverty across Nepal.
4	Size of grants available	\$ 500,000.00 to \$ 2,500,000 with matching contribution from bidder.
5	Projects eligible for funding	<p>Only large scale, transformational and future oriented projects will be eligible for receiving funding from Sakchyam Challenge Fund under this window. Total project cost would be in excess of \$1,000,000 with no upper ceiling.</p> <p>In order to qualify for further consideration, projects should demonstrate the following:</p> <ul style="list-style-type: none"> • Innovative, efficient and sustainable ways to deliver financial services for the unbanked or underbanked low income, poor and disadvantaged people • Transformational and game changing product; services and delivery channel platforms • Practical projects with outstanding outputs and impacts • Technology enabled projects that promise high outreach • Projects that are likely to take longer period to be fully implemented without grant support <p>Sakchyam will issue specific Request for Proposals for the design and implementation of financial services that address priority financial sector development needs in Nepal. Bidders can submit full application that addresses the above four areas. However, Sakchyam sees the following financial products/services to be the main area for financial transformation in Nepal:</p> <ul style="list-style-type: none"> • Mobile Financial Services Platform and Products

		<ul style="list-style-type: none"> • Payment Systems • Value Chain Financing • Remittance based savings and lending products • G2P, P2G and other payments • Technology based, embedded, widespread financial literacy programmes
6	Entities eligible to apply	Private sector entities registered anywhere in Nepal with demonstrated experience in financial services and/or technology enablers that are in satisfactory financial health. Bidders are highly encouraged to collaborate and form partnerships with national and international champions of the innovative financial services and value chain actors.
7	Application process	Bidders should submit detailed full applications which address one of the priority products or services proposed in the RFPs. The full application must be made on official S-CF forms, available from the Sakcham Programme office and Sakcham website (www.sakcham.com.np). All Bids must be submitted electronically. Bidders will be asked to make a presentation of their application to Sakcham, before it is submitted to the Independent Assessment Panel (IAP) for approval.
8	Assessment Process/ Oversight	An independent assessment panel drawn from a pool of independent experts will review and approve applications. These experts have been selected by the Sakcham Leadership Team in consultation with DFID. Experts are respected professionals in the field of technology, finance, business, and economics disciplines based on the nature of the applications received.
9	Ranking Criteria	<p>Full Applications are appraised as to the degree they satisfy the following criteria:</p> <p>8. Number of Beneficiaries reached: Projects should target to provide financial services to the large number of unbanked/underbanked population. Key indicators for this assessment are:</p> <ul style="list-style-type: none"> • improved livelihoods and incomes • new, innovative products and service • widespread coverage specially districts lacking in financial services <p>9. Sustainability: Projects should demonstrate that it will be commercially sustainable within the period of 3 years and bidders are willing to continue the programme beyond the project period for commercial motive. Key indicators for this assessment are:</p> <ul style="list-style-type: none"> • commercial viability of project • bidders financial health, capacity and capability to deliver the project • governance of the bidder • built-in plan indicating how the bidder will achieve sustainability <p>10. Actors in Value Chain: Bidders should provide a role to all key players in the financial system value chain. Stand-alone systems or modalities benefiting only a few entities should not be proposed. Key indicator for this assessment is:</p> <ul style="list-style-type: none"> • capability to integrate various actors in the value chain to benefit from the financial product or service <p>11. Market Failure/Missing Market: Project should be governed by the principle of Theory of Change to address the Market Failure or Missing Market situation. Key indicators for this assessment are:</p>

		<ul style="list-style-type: none"> • degree to which beneficiaries benefit from addressing the market failure/missing market • the level of risk reduction strategies put in place to mitigate programme specific risks <p>12. Scalability/Speed of Implementation: Bidders should propose the projects that can be scaled up easily after implementation within a 3 year period and project activities should start immediately after the funding decisions are made. Key indicators for this assessment are:</p> <ul style="list-style-type: none"> • Potential to scale up projects • Clear implementation plan and schedule <p>13. Additionality/ leverage: Bidders should seek Sakchyam Challenge Fund support as catalyst to unlock large investment from the private sector. Project should demonstrate Value for Money (VfM) for the total investment. Key indicators for this assessment are:</p> <ul style="list-style-type: none"> • extent of new private sector sources mobilised (directly from the bidder, and indirectly) as a result of the project • degree to which the project would only happen with S-CF funds <p>14. Project Governance and Management Structure</p> <ul style="list-style-type: none"> • Quality of Project Management team • Governance structure to oversee large investment projects • Proven experience in managing large projects that involve a large number of participating institutions/entities and beneficiaries
10	Manager	<p>Louis Berger Sakchyam Programme Office, Chundevi Marg, Maharajgunj, Kathmandu, Nepal Tel: 01 4721284/ 4721269/ 4721181; E Mail: fundmanager@sakchyam.com.np</p>