



## USAID FINANCIAL SECTOR REFORM ACTIVITY

Expressions of Interest (EOI) Financial Sector Reform Activity FSR-011 in support of financing for Micro, Small and Medium-sized Enterprises

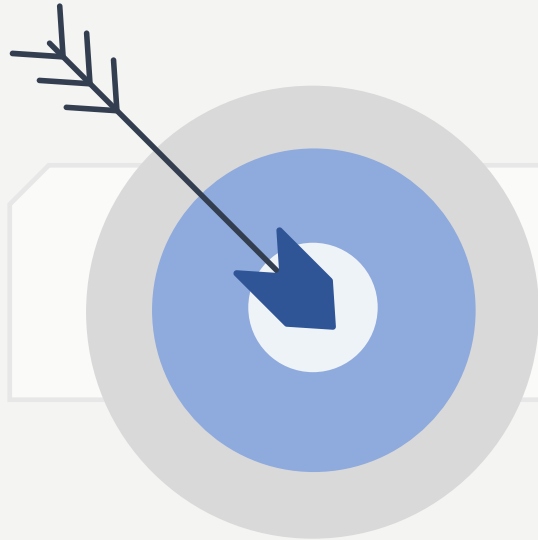
Q&A SESSION

11.01.2023

# OBJECTIVES

To provide funding to Ukrainian banks, non-bank financial institutions, including fintechs, investment firms and funds, and other organizations such as financial sector associations and NGOs that play a role in mobilizing commercial financing for MSMEs

Any grant funding should be catalytic in that it enables the recipient to leverage additional funds for on-lending/ investment for MSMEs



FSR aims to increase the range of finance providers and services offered to MSMEs



LEVERAGE

ON-LENDING

INVESTMENTS

DE-RISKING

SCALABILITY

# Information Requirements

EOI outlines how grantee uses grant funds in its lending or investment activity (e.g., to reduce risk, offset lending costs to clients, raise capital, and support the financial recovery of MSMEs.)

EOIs should illustrate the submitting organization's capability to undertake the activity

EOIs must include the following:

Background of the activity and how grant funding will be used (e.g., debt/equity co-financing, de-risking, financial product development, technical support, advisory etc.)

Amount of funding requested and why FSR's support is critical to attracting other sources for on-lending to MSMEs

Timeline for the proposed 12 to 24 months

Sustainability and scalability potential after the life of the project

Recovery Impact: how the activity will assist the MSMEs to increase sales, enter new markets, create jobs, become more efficient, etc.

The impact of the proposed activity on: women-owned businesses and/or positive gender impact (e.g., jobs or services for women), businesses impacted by the war or that are critical during the crisis or to reconstruction of the environment

Budget: submissions should include a total cost estimate needed to accomplish the proposed concept. FSR is not looking for a detailed budget, but general cost information by major line items

# Illustrative Interventions

1

Use as co-financing to attract other sources of financing for on-lending to MSMEs or investment

2

De-risk the loan portfolio in order to attract external financing

3

Substitute for or enhance client collateral

4

Support for the development of new financing products, funds or other facilities for MSMEs

5

Acquire the technical or systems support to enable one or more institutions to start or expand MSME lending

i

Examples of catalytic capital may include partially funding the loan portfolio, guarantees or capital contribution to secure funding, credit insurance, substituting or enhancing client collateral, lowering interest rates for clients.

i

FSR will also consider funding to offset the costs of support for setting up a new financing facility, product development (for trade/invoice factoring, leasing, working capital, other loan type) and/or time bound operational support for building the portfolio of MSMEs.

# Use of USAID Grants For Financial Institutions And Investment Firms

## Typical uses:

- Incentivize lending to target businesses or clients
- Supplement or reward raising (private) capital
- Complement US DFC or other IFI lending to offset risk or costs
- Offset costs to serve new segments, markets or develop new products
- Invest in technology or distribution infrastructure

## Common Structures:

- Fixed Award Amounts – payments made based on milestone(s) achieved
- Standard grants – reimbursement of document costs

## Reporting:

- Monthly or quarterly reports, disbursement requests
- Site visits, meetings, ad hoc communications
- Submission of external audits (>\$750k)



# GRANT EXAMPLE



## PURPOSE

**The grant used to attract outside funding**



## EXAMPLE

- A factoring company has identified a lender or investor interested in providing a revolving loan for invoice discounting. However, the investor requires that the amount provided be no more than 2X equity.
- A USAID grant is used to increase the amount of equity of the factoring company by \$500,000 so that it may increase the amount of the revolving loan to \$1 million.
- The grant is provided in tranches of \$100,000, one tranche up front and four additional tranches after 75% of the previous tranche has been used to purchase invoices.
- The factoring company revolves its invoices discounting portfolio, ultimately using the \$1.5 million in loans and grants to discount \$3 million invoices in a year.

# GRANT EXAMPLE

## PURPOSE

**The grant used to attract international and local investors**

## EXAMPLE

- A private equity (investment) firm is establishing a dedicated debt fund for MSMEs in Ukraine.
- The firm has identified an IFI willing to take a subordinated debt position in order to help attract international and local private investors. The IFI requires the firm to provide at least 20% of the value of the its debt in equity. The firm needs initial capital and to pay for the legal and other start up fees.
- A USAID grant of \$1.5 million is negotiated. \$1 million is used to provide the initial paid-in capital paid, disbursed once the agreement with the IFI is reached. An initial tranche of \$100,000 is provided to cover fund set up costs. Another tranche of \$200,000 is paid as a success fee once an additional \$1 million is raised from local investors and a final \$200,000 is paid when funds are fully invested.
- The fund ultimately raises \$3 million from local equity investors and \$10 million from the IFI which is provided as medium-term debt for Ukrainian MSMEs.

# GRANT EXAMPLE



## PURPOSE

**The grant is used as first loss capital**



## EXAMPLE

- An agricultural equipment leasing company has an interested local investor. They wish to invest \$5 million but estimate a 10 to 15% potential loss due to damaged equipment.
- The local investor wants the leasing company or a third party to provide a first loss guarantee for this 10%-15% loss.
- A USAID grant is provided to the leasing company, and held in an escrow account, as security against damaged equipment for a period of two years after which it is release to the leasing company as capital.



# GRANT EXAMPLE



## PURPOSE

**The grant used to incentivize entering a new market or segment**



## EXAMPLE

- A commercial bank wishes to increase lending for moveable property to women engaged in specific agricultural value chains who otherwise lack collateral and capital.
- A USAID grant is provided to develop an asset-based lending (ABL) handbook and develop internal valuation policies for assets and to offset the requirement for borrowers to cover 30% of the asset purchase price.
- The commercial bank has up to \$750,000 in grant funds that it can use to cover the borrowers' contribution to the asset purchase price. The bank determines on a client-by-client basis how to apply the grant funds and claims them quarterly under the grant agreement.
- The bank finances \$3.75 million in moveable assets while covering an average of 2/3 of borrowers up front contributions through the USAID grant.

# GRANT EXAMPLE



## PURPOSE

**The grant is used for first loss capital and to cover initial operating expenses for a time bound period**



## EXAMPLE

- A fund manager is interested in raising a new fund to invest in businesses in critical development sectors (agriculture, health, renewable energy, climate/climatech, women or IDP-owned firms, etc.).
- To attract commercial capital, a grant is provided to cover the first loss position and some initial operating expenditures (legal, personnel) for a time bound period (often up to 18 months).
- Grant payments are traunched to allow the fund manager to get paid for achieving milestones including fund raises.

# GRANT EXAMPLE



## PURPOSE

**A grant is provided to cover the cost of expertise to develop a new specialized financial product and staff training**



## EXAMPLE

- A bank is interested in getting outside expertise to develop a new specialized financial product for small and medium enterprises.
- A grant is provided to hire a consultant or firm to undertake the product develop, do the piloting and roll out of the product, including training bank staff on the marketing and roll out of the product.
- The grant is cost-shared against other financial or non-financial resources committed by the bank toward the development of the product that demonstrate their interest/commitment to the new product area..This could include the bank's investment in a strategy around the new product, investment in IT system upgrades or modifications or other complementary actions requiring an investment in order to realize the new product.

# GRANT EXAMPLE

## PURPOSE

**A grant is used to launch a new donation crowdfunding platform for dislocated small and microenterprises**

## EXAMPLE

- A Ukrainian fintech that provides money transfer services has noted that many of its “send money” transactions originate from overseas. It wishes to target overseas Ukrainians to donate money for Ukrainian businesses run by IDPs to help them restart and restock.
- The fintech has the skills to develop the app technology but it wishes to hire a small community outreach team to develop partnerships with local governments and NGOs in Ukraine to identify legitimate IDP businesses. It also wishes to advertise on-line to Ukrainian diaspora and refugees on websites they frequently visit.
- A grant of \$250,000 is agreed upon. \$100,000 is provided to the fintech to offset the costs of the community outreach team and provide support to the local NGOs in Ukraine to identify and vet IDP businesses to ensure that they are legitimate and that funds are used for a business purpose. Another \$50,000 is provided to advertised on key expatriate and refugees websites. \$100,000 is awarded once \$1 million is channeled from overseas to IDP-run businesses.

# ELIGIBILITY CRITERIA

---



Legally registered and doing business in Ukraine



Demonstrated capacity to achieve EOI objectives

# SUBMISSION REQUIREMENTS

A PowerPoint presentation (maximum 10 slides) that includes the following:

1. Organizational overview and track record in providing or facilitating MSME finance
2. Description of the catalytic funding request: purpose, how it would work, KPIs, and why USAID support is critical and provides additionality
3. Leverage to be achieved for the catalytic funding received
4. Target businesses and geography
5. Monitoring program for financial result and positive impact on borrowers
6. Governance and management team
7. Legal registrations and licenses

Other requirements for PowerPoint presentations:

- May be in English or Ukrainian.
- Title Slide (not counted against slide limit) showing Respondent Name/Group; Contact Information; and Response Title.
- Be up to 10 megabytes.
- Include two submission attachments: one in .ppt and the other one in .pdf format.

# IMPORTANT DEADLINES

## Written Q&A

Questions should be submitted to  
FSR\_Applications@dai.com  
no later than **January 12, 2023**

- Questions sent to other email addresses will not be addressed
- The FSR team will not respond to emails directly. Instead, one Q&A document containing all questions received from all prospective applicants (both via email submissions and during the online Q&A session) will be distributed to everyone on the call/distribution list and published online

## Proposals

PowerPoint presentations should be emailed to  
FSR\_Applications@dai.com  
no later than **22:00 EST on February 6, 2023**

- An email confirming receipt of the submission will be sent after the submission deadline
- An eligible organization/company may submit more than one proposal in response to this EOI. All proposals should follow the same submission requirements

# PROCESS



## ■ Stage 1 (EOI)

FSR and USAID/Ukraine will evaluate submissions based on the guidelines and criteria set forth in this EOI. FSR may request additional information/clarification from the prospective applicant.

Timeline: 1-2 months depending on the number of submissions.

FSR will select a shortlist of firms from the submitted EOIs that will be invited to submit an application in response to a subsequent Request for Applications (RFA). Not all EOI submissions may be advanced to Stage 2.

## ■ Stage 2 (RFA)

FSR intends to send an RFA to the shortlisted applicants to request a detailed application submission. An evaluation committee will review all applications submitted in response to the RFA in accordance with the evaluation criteria indicated in the RFA. The application(s) selected forward will be negotiated for program description and total price/budget and may result in a grant agreement issued by FSR. All awards are contingent on USAID approval.

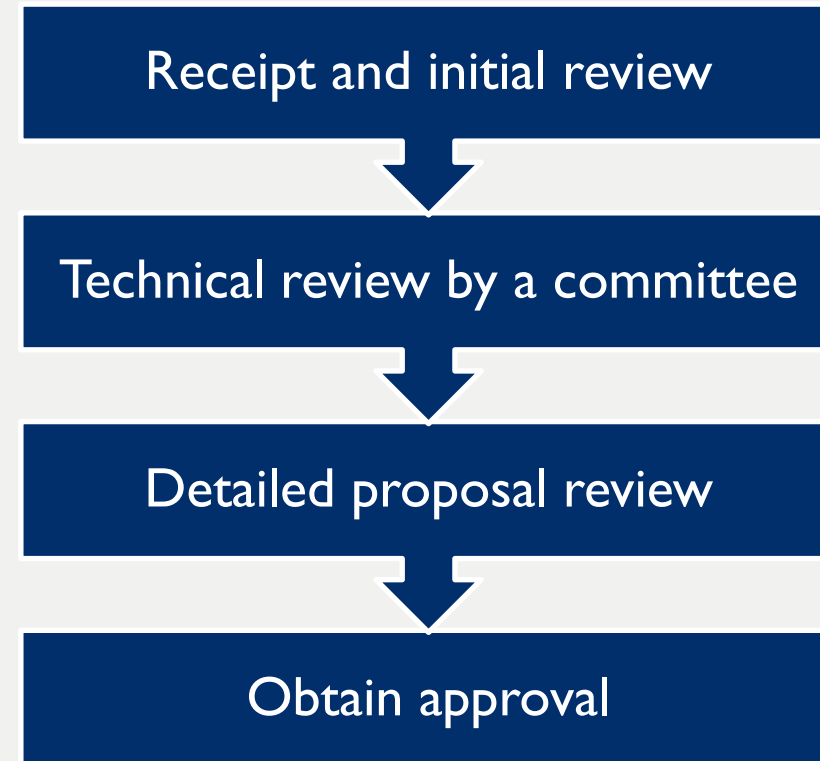


# STAGE 2 (RFA)

## ■ RFAs typically include:

- Technical scope of the grant program
- Anticipated number of awards and ceilings
- Types of organizations targeted
- Period of Performance
- Submission requirements
- Cost-share requirements (what percentage of cost-share is expected, if any)
- Selection criteria (e.g., past performance and capability, project justification and design, cost effectiveness, potential for sustainability)
- Standard provisions included in the grant agreement

## ■ Application Steps



# TYPES OF GRANTS

## In-Kind:

- FSR procures goods/services and gives them to the grantee. No payments are made directly to the grantee.
- Outputs could include inventory lists or photos of ribbon cutting ceremonies.
- No limit on grant to a non-US NGO.

## Fixed Amount Award (FAA):

- Payments are made based upon completion and acceptance of program milestones.
- Appropriate if milestones are easily identifiable, and initial budget can be fully vetted up-front.
- 3-year max period.
- No advances are allowed under FAA.
- No limit on grant to a non-US NGO.

## Simplified:

- Reimbursement of actual costs based on receipts and financial reports.
- No indirect costs.
- Advances are allowed.
- No equipment valued at over \$5,000 can be purchased. No ineligible or restricted goods allowed.
- Award amount cannot exceed the simplified acquisition threshold (currently \$250,000).

## Standard:

- Funds can be distributed through an advance or as a reimbursement.
- Grantee can bill indirect costs if they hold a NICRA approved by a USG agency.
- No limit on grant to a non-US NGO.

# OTHER CONSIDERATIONS

- In order to determine financial capability of the applicant, FSR may ask for three years of audited financial statements or balance sheets/income statements, cash flow, organization chart, applicable policies and procedures (accounting, purchasing, property management, personnel). In cases that require further information, FSR may also verify financial responsibility and institutional capability by inspections, letters from other donors, and/or on-site visits.
- Applicants must be registered in the System for Award Management (SAM) and acquire a Unique Entity ID (UEID) before an award can be made.
- Non-US recipients must perform an annual audit in accordance with USAID's Standard Audit Guidelines if they expend \$750,000 or more in US government awards in a fiscal year (all federally funded awards, not only USAID awards). Audit should be performed by independent auditing firms approved by USAID.
- All grantees with FSR awards over \$500,000 will be required to submit an annual TIP Certification.
- Grant can be amended for many reasons including to adjust the budget, milestones, scope of work or for period of performance (USAID approval typically needed).
- If procuring equipment is part of a grant, such procurement should follow source and nationality rules defined in the contract (grantees are authorized to purchase goods and services from the US, Ukraine and developing countries, but excludes advanced developing countries and prohibited source countries).
- Some grant activities may need an environmental screening (e.g., infrastructure/construction, building rehabilitation, agricultural activities)