



# Terms of Reference (TOR) for Market Study in Mount Kenya and Lower Eastern Regions of Kenya

*Enhancing the small and medium enterprise finance ecosystem for credit unions and other financial cooperatives*

March 26, 2019

Implemented by: OUR CLIENT

# Terms of Reference for Market Study

## Project Background

Small and Medium Enterprises (SMEs) form the backbone of many economies. SME development is closely linked with economic growth and job creation. Nevertheless, SMEs in Kenya face various challenges in accessing finance from Savings and Credit Cooperatives (SACCOs). Particularly, small firms rely on other financing options, including informal ones, for working capital and additional financial services such as cash management, insurance, transfers, and other transactional products.

In Kenya, SMEs are categorized according to the number of employees and annual turnover as shown below;

	Number of Employees	Annual Turnover (KES)
Small Enterprise	10 – 49	500,000 – 5 million
Medium Enterprise	50 – 99	5 million – 800 million

Enterprises with 1-9 employees and an annual turnover of less than KES 500,000 are considered Micro Enterprises.

Our Client is implementing the Technology and Innovation for Financial Inclusion (TIFI) project, over the next 3 years (2019 – 2022) in Kenya. This project will focus on expanding financial access for SMEs across multiple sectors through SACCOs. During the piloting stage, the program will work with 3 SACCOs with a presence in Machakos, Makueni, Kitui, Embu, Meru, Nanyuki and Kirinyaga Counties.

### 1. Rationale and approach of the TIFI Market Study

Our Client seeks a market study to inform TIFI's enterprise development strategy with up-to-date, relevant and reliable market information that indicates which economic sectors the TIFI-supported Savings and Credit Cooperatives should focus on to achieve market success, profitability and sustainability.

This TIFI Market Study is a self-contained assignment with a precise time-frame and expected output. However, it will also be the crucial foundation of a longer and broader cycle of market analysis within and beyond the TIFI Project. The consultant team is thus expected to provide a clear and realistic

direction to the TIFI strategy of support to market-oriented financial product development through a substantiated and consistent indication of which economic sectors and sub-sectors will be suitable to the beneficiaries' capacities, as well as displaying the marketing potential necessary for viable financing to small firms.

Therefore, the Study should be completed before the beginning of the first TIFI training cycle. It will provide key inputs for the fine-tuning of the TIFI service package, and the orientation, entrepreneurial choice and marketing support provided to local women and youth entrepreneurs.

Several Project components and TIFI activities will therefore tie into the market strategy outlined by the TIFI Market Study: training, capacity building, business planning, product development, marketing and networking support, and other TIFI services geared towards supporting the partner SACCOs to respond appropriately to the existing SME financing demand – or stimulating the potential one – as recommended by the outcomes of this Study.

The Market Study will be conducted in the Mount Kenya and Lower Eastern regions of Kenya.

## **2. Overall objective of the TIFI Market Study**

The overall objective of the TIFI Market study will be to:

Investigate the SME-oriented financial services markets (primarily at the regional level) to identify those economic sectors/sub-sectors with the highest potential for the type of financial solutions to be developed by TIFI and its partner SACCOs in the Project areas. Subsequently the results will be used to inform specific, relevant, updated, detailed and reliable advice as to which areas of business the TIFI-supported SACCOs should serve.

## **3. Specific objectives of the TIFI Market Study**

The specific objectives of the TIFI Market study will be to:

- I. Evaluate the SME landscape within the area of coverage and profile SME activity;
  - Examine the activity sectors, legal status, structure, and human resource capabilities of sampled SMEs.
  - Investigate the availability of trade unions and the level of participation of SMEs.

- Assess digital savvy of SMEs within the area of coverage i.e. online presence (social media, online directories, email and websites), participation in digital online markets, adoption of digital payment services for clients and suppliers.
- II. Define the SME financing market size in the project area;
- Research the economically feasible sectors and sub-sectors within the Project area e.g. manufacturing, agriculture and agricultural processing, wholesale and retail trade, and service industries etc. Identify those sectors and sub-sectors with higher growth potential and with a clear definition of level of SME participation. Map out the current geographic and sectoral distribution of SMEs within the project area.
  - Define and quantify the overall market financing needs of SMEs within the Project area.
- III. Determine the level of access to financial services for SMEs in the Project area
- Assess the standard procedures financial institutions apply to identify SME clients, profile and classify these clients, identify risks in these enterprises and develop tools and strategies to address SME needs and financing risks.
  - Assess the availability of financial products (savings, lending, transaction banking, risk management solutions) and how aligned these are to the financial needs of SMEs within the project area.
  - Evaluate the level of penetration or uptake of financial services by SMEs in the Project area.
  - Assess whether SMEs face restricted access to any financial services from financial institutions within the Project area, under what circumstances such barriers are placed and whether these differ by sector, service or client type.
  - Examine the adequacy and transparency of information provided by financial institutions to clients to enable comparability of services, processes and charges across financial institutions to support decisions with outcomes that are best suited to the client needs.
- IV. Investigate competing financial products and services for SMEs from commercial banks, microfinance institutions and other SACCOs in the Project area. This includes but is not limited to profiling competing institutions, product offerings, product marketing strategies, entry requirements, product terms and conditions, processes, applied tools and techniques.
- V. Evaluate the business development services environment for SMEs within the Project area;
- Profile business development services tailored for SMEs, their location, coverage, structure, service offering, processes, capacity and charges.

- Identify any business networking events for SMEs within the Project area such as trade fairs, exhibitions, workshops etc. This includes describing the target sectors, event frequency, event coverage, participation requirements etc.

#### **4. Structure of the TIFI Market Study**

##### 4.1 Phasing

The TIFI Market Study will be organized in two phases, i.e.:

- a) Phase 1 – the preliminary mapping of the ‘supply side’ (in the TIFI Project target area) and ‘demand side’, followed by a review and feedback with the project stakeholders for the selection of sectors with high potential (see point 4.2). This will correspond to objectives I and II above.
- b) Phase 2 – the in-depth analysis of the selected sectors from the supply and demand point of view, and the final recommendations of viable market penetration and or expansion strategies for the supported SACCOs as elaborated in objectives III, IV and V.

The current consultancy assignment is aimed at covering both Phases within the agreed consultancy period.

##### 4.2 Mid-study review

At the end of the Phase 1 of the Market Study (see point 5.1. above), the Consultant will be available for a consultative review of the preliminary results with the Project’s partners. The review meeting will be composed of a structured presentation by the Consultant including findings, available options and interim recommendations, followed by a discussion with the review panel aimed at determining the specific direction of Phase 2 and – if relevant – the revision of the ToR accordingly.

#### **5. Activities and Work-plan**

The daily activities of the Market Study will be specified in and organized through a detailed workplan which details the tasks of the consultant, the timeframe and resource allocation for each activity, as well as the support required from the clients or other actors (if relevant).

The said workplan will initially be developed by the Consultant with the facilitation of Our Client and its partners in a dedicated meeting, to allow the coordination of the clients' collaboration with the Consultant during the Market Study. A copy of the finalized workplan should be submitted to the contracting agency Our Client upon signature of the Contract.

Any substantial change to the workplan should be communicated to the clients in writing (e.g. by email). This will allow for the correct degree of monitoring of the Market Study progress by the contracting agency.

## **6. Methodology and Content**

The Market Study should utilize an articulated and coherent methodology which will allow for very practical references to the above mentioned economic sub-sectors, and which will show a deep understanding of the Kenyan financial markets and a suitable knowledge of the SME sector in the target area.

The market study will avail itself of both secondary and primary sources, through desk research and field surveys as applicable, and will provide the client organization with detailed, updated, relevant and reliable quantitative data and qualitative information. This means that the Consultant will be responsible for gathering reliable and comparable quantitative data and will not only rely on qualitative or anecdotal information.

The Market Study should also clearly indicate the type of market competition characterizing the economic sectors accessible by the TIFI-supported SACCOs.

## **7. Reporting**

The final output of the consultancy will be a comprehensive Report on the TIFI Market Study produced in English.

Analysis of the quantitative data collected during the Study should be included in the body of the Report and the data included in the report as an annex. Also, qualitative data, such as interview information and anecdotal evidence, should also be included as an annex or quoted in the Report as relevant. Any bibliographical or other source of secondary information should be cited in detail in annex List of References.

The Report should include in its structure a brief and clear Executive Summary in its opening sections, and a chapter of Final Conclusions and specific Recommendations for action in its final section.

The Report should systematically mention and provide details of the institutions, organizations and people who have been the sources for gathering data or qualitative information, or the key informants for drawing conclusions and formulating recommendations.

The Report should not exceed 40 pages in length, not including annexes. The Consultant is expected to produce original content and appropriately quote or otherwise cite external content; plagiarism and/or uncited references will not be accepted nor compensated.

## **8. Key Deliverables**

- I. Comprehensive workplan that will accompany the Technical and Financial Proposal document in response to this call.
- II. A Mid-Study Report will recommend the sectors with growth potential for financing by TIFI-supported SACCOs.
- III. TIFI Market Study Report: the report should provide a thorough analysis of the business value in the SME market segment for TIFI-supported SACCOs while clearly laying out market financing needs for identified distinct SME sectors, highlighting sector risks and opportunities, and providing insights into the competitive landscape within the Project Area.
- IV. Marketing Strategy: the consultant will lay out a sustainable plan of action on the product development and promotion, based on individual SACCO interests and capacities, for the SME market penetration and/or expansion while achieving a competitive advantage.

## **9. Duration of the Assignment**

The assignment is expected to take **50 calendar days** after signing of the contract. It is expected that the assignment will be completed by **May 29, 2019**.

## **10. Payment Modalities**

The Consultants shall be paid the consultancy fees upon completion of the following milestones.

- 20% at inception of the Market Study.
- 20% after completion, submission and acceptance of Mid-Study Report.

- 30% after completion, submission and acceptance of the final TIFI Market Study Report.
- 30% after completion, submission and acceptance of the Marketing Strategy developed based on findings from the TIFI Market Study.

## **11. Application Procedure**

Qualified and interested firms are hereby requested to apply by submitting their proposals to [consultancy@kuscco.com](mailto:consultancy@kuscco.com) not later than 17.00hrs, April 4, 2019. The application must contain the following:

- A technical proposal with brief description of no more than 10 pages of why the firm is the most suitable for the assignment, with details of the organization and previous work of a similar nature, that the organization has conducted. It should give a detailed, clear methodology, on how the firm will approach and complete the assignment.
- The technical proposal must also contain personnel CVs for the Consultants performing the contract. These CVs must indicate educational background/professional qualifications, past relevant experiences, as well as the contact details (email and telephone number) of the Consultants to perform this contract. A detailed description of the Consultants' experience and at least three (3) professional references must also be provided;
- Financial Proposal that indicates the all-inclusive fixed total contract price, supported by a breakdown of all the costs. These costs must be broken down by no fewer than the following budget categories:
  - Personnel (including rates and level of effort)
  - Fringe (benefits)
  - Travel
  - Meetings
  - Materials
  - Fee

## **12. Evaluation Criteria**

The Consultant will be evaluated against a combination of technical and financial criteria (combined scoring method). Maximum score is 100% out of which technical criteria equals 70% and financial criteria equals 30%.



The technical evaluation will include the following:

- I. Fulfillment of all statutory obligations for businesses in Kenya (Valid KRA Pin, Tax Compliance Certificate, Business Permit) – 10%
- II. Firm's experience in successfully conducting work of a similar nature and magnitude.
  - a) Education and experience of key staff assigned to this project – 15%
  - b) Extensive expertise, knowledge, and experience of the financial services market in Kenya, marketing and risk management issues, specifically for SMEs, at the systemic and institutional levels – 15%
  - c) Extensive conceptual and practical knowledge of SME sectors and operating environment, notably in the Mount Kenya and Lower Eastern Regions of Kenya – 15%
  - d) At least 8 years (Firm) conducting market research assignments in Kenya in the financial services space – 15%
  - e) Overall Methodology – 30%

The financial evaluation will include the following:

- I. The Firm's experience in successfully conducting assignments of this magnitude – 50%
- II. Total proposed budget for the completion of this Study – 50%

### **13. General Circumstances**

- I. Obligations: The Consultant shall complete the assignment set out in the Terms of Reference for this contract with due diligence, efficiency and economy, in accordance with generally accepted professional techniques and practices. The Consultant must respect the impartiality and independence of Our Client and in connection with this contract must neither seek nor accept instructions from anyone other than Our Client. During the term of this contract the Consultant must refrain from any conduct that would adversely reflect on Our Client and must not engage in any activity that is incompatible with the administrative instructions and policies and procedures of Our Client. The Consultant must exercise the utmost discretion in all matters relating to this contract.
- II. Title rights: Our Client shall be entitled to all property rights, including but not limited to patents, copyrights and trademarks, regarding material created by the Consultant which bears a direct relation to, or is made to perform, this contract.

- III. Penalties for underperformance: Payment of fees to the Consultant under this contract, including each installment, is subject to the Consultant's full and complete performance of his or her obligations under this contract regarding such payment to Our Client's satisfaction, and Our Client's certification to that effect.
- IV. Taxation: Our Client accepts no liability for any taxes, duty or other contribution payable by the Consultant on payments made under this contract.