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Subject:	Request for Information (RFI)
Issue Date:	June 03, 2021
Deadline to submit feedback:	July 02, 2021
Anticipated Activity Title:	Equitable and Resilient Finance
Anticipated mechanism type:	To be determined (TBD)
Anticipated timeframe:	5 five years, 2022 - 2027
Anticipated total budget:	$20-25 million USAID investment.

To All Interested Parties:

The United States Agency for International Development (USAID) is seeking feedback through this Request for Information (RFI) from entities interested in the attached Concept Paper for the USAID/Equitable and Resilient Finance Activity.

This is NOT a Request for Proposals/Applications and is NOT to be construed as a commitment by the U.S. Government to issue any solicitation/notice of funding opportunity or to pay for any cost incurred in the preparation and submission of comments/answers on this RFI.

Responding to this RFI will not give any advantage to any firm or organization in any subsequent procurement and will not lead to an organizational conflict of interest. Responses will strictly be held confidential. Potential offerors/applicants must not expect a direct response from the U.S. Government to any of the comments/suggestions.

Please strictly limit the response to the questions included in this RFI and to comments /suggestions to the document. To expedite our review and be considerate of your time, please keep the response to no more than 7 pages in length. Please note not all questions must be answered. Responses to the notice must be written in English or Spanish and use 11 pt. font.

Responses to this RFI must be sent by the closing date and time to:

- Heather Wirick, Agreement Officer at hwirick@usaid.gov
- Paula Cubillos Olano, Senior Acquisition & Assistance Specialist at pcubillos@usaid.gov
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Section I
USAID/Equitable and Resilient Finance
Activity Concept Paper

Introduction.

USAID's support for financial inclusion provides many benefits. USAID has supported increased financial service access in Colombia since 2014, but the country still faces considerable financial inclusion challenges. USAID supported the Government of Colombia (GOC) in modernizing the financial ecosystem and incentivized the mobilization of over USD $1.1 billion in financial services to 900,000 micro, small and medium enterprises (MSMEs). USAID has improved access to financial services for youth, women, migrants, Afro-Colombians, indigenous peoples, and rural communities, all of whom have been historically underserved by these services. Improved financial service access for these underserved populations facilitates job creation, can promote the economic recovery from COVID-19, and finances long-term rural development in line with peace implementation. Improved financial service access can also increase citizens' trust in formal institutions and promote transparency and legality.

Colombia has improved financial access for much of its adult population over the past decade. According to the Economist Intelligence Unit's Global Microscope, a survey that assesses the 55 countries' financial inclusion enabling environment, Colombia ranked as a top country for financial points of access and product improvement. Advances in Colombia's financial service access were also evidenced by *Banca de Oportunidades* and the *Superintendencia Financiera's* 2019 financial inclusion report.[1] This report stated that 82.5 percent of Colombia's adult population has access to at least one financial product, like a loan or savings account. This number is substantially lower in rural areas, where only 55.7 percent of rural adults have access to at least one financial product.[2] Digital savings products have increased citizens' use of financial products, and national government programs, like *Familias en Acción and Ingreso Solidario,* are using digital savings accounts to direct social payments to rural areas.

There are still significant financial inclusion challenges in Colombia.[3] For example, over 200 municipalities lacked access to a financial branch in 2019.[4] There are also significant disparities

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[1] Financial Inclusion Report 2019 – Superintendencia Financiera, Banca de Oportunidades. https://bancadelasoportunidades.gov.co/sites/default/files/2020-10/FIR-2019.pdf

[2] As of December 2019, 82.5% of the adult population had access to at least one financial product; that is, of the 35.6 million adults in Colombia, 29.4 million had a deposit or credit product. A decade ago, this indicator stood at only 57.3%, implying that more than 12 million Colombians have recently entered the financial system. Nevertheless, the access indicator decreases as rurality increases. In fact, it ranged from 90.4% for cities and urban agglomerations to 55.7% for dispersed rural municipalities. This result closely correlates with Colombia's financial coverage, which still has deficiencies in the rural sector, despite the progress made.

[4] Financial Inclusion Report 2019 – Superintendencia Financiera, Banca de Oportunidades.

in financial service access between Colombian men and women. Gender disparities undermine women's economic empowerment and impede overall economic growth.[5] Moreover, there is a correlation between domestic abuse and low levels of financial access, and many individuals that suffer physical abuse also suffer from economic abuse.[6] Colombia's migrant population also lacks access to financial services needed for entrepreneurship and to effectively contribute towards the Colombian economy.

MSMEs also inconsistently access and use financial service products. MSMEs make up 95 percent of businesses in Colombia and contribute 50 percent of national employment, but only 18 percent of MSMEs applied for a credit product in 2019.[7] Identifying and reducing the barriers MSMEs face in formal financial services access would enhance business growth and create new employment opportunities. The emergence of COVID-19 demonstrates the need to improve MSMEs access to financial services. A recent survey from Colombia's National Administrative Department of Statistics (DANE) found that during 2020, the number of operational MSMEs decreased by 7.3 percent. The number of operational women-owned MSMEs declined by even more, 10.6 percent.[8] Financial service access is a key component of economic recovery efforts, especially for underserved populations and businesses.

I. PURPOSE

The Equitable and Resilient Finance activity will improve the supply and demand of formal financial services in rural, underserved and conflict-affected regions, and will mobilize long-term capital for USAID/Colombia's programming and Country Development Cooperation Strategy (CDCS) objectives.

II. DEVELOPMENT HYPOTHESIS

IF financial capacity, access to financial services, and financial inclusion ecosystems are improved for target communities, and more long-term private capital is mobilized towards USAID development objectives, **THEN** underserved populations and businesses will be able to make informed financial decisions thereby increasing investment and licit economic opportunities in conflict-affected regions.

III. RESULTS FRAMEWORK

The results framework shows how **Objective No. 1** will influence the demand side of financial services by targeting consumers and MSMEs and **Objective No. 2** the supply side by targeting

https://bancadelasoportunidades.gov.co/sites/default/files/2020-10/FIR-2019.pdf
[5] https://www.oecd.org/dac/gender-development/47561694.pdf
[6] https://assets.speakcdn.com/assets/2497/domestic_violence_and_economic_abuse_ncadv.pdf
[7] Banca de Oportunidades, Demanda de los productos financieros en los Micronegocios en 2019.
[8] DANE, Encuesta Micronegocios https://www.dane.gov.co/index.php/estadisticas-por-tema/mercado-laboral/micronegocios

financial services providers in targeted communities. **Objective No. 3** will improve the overall regulatory environment to enhance financial inclusion of underserved populations. The **Special Objective** will mobilize long-term commercial finance for USAID's programming and CDCS objectives**.**

Equitable and Resilient Finance Activity Results Framework			
Objective 1: Increased financial capacity in target communities.	**Objective 2:** Increased provision of financial services in target communities.	**Objective 3:** An improved ecosystem for the financial inclusion of underserved populations.	**Special Objective:** Increased mobilization of long-term financial capital in USAID's priority sectors.
IR 1.1: Increased financial capacity among targeted individuals.	**IR 2.1:** Increased capacity to provide services among financial service providers.	**IR 3.1:** Improved collection and use of financial consumer data.	
IR 1.2: Increased financial capacity among MSMEs.	**IR 2.2:** Expanded presence of financial service providers in target communities.	**IR 3.2:** Enhanced regulatory frameworks for financial inclusion.	
	IR 2.3: Increased provision of digital services by financial service providers.		

Objective 1: Increased financial capacity in target communities.

Financial capacity is the combination of skills, attitude, knowledge, and self-efficacy needed to manage financial resources and make financial decisions. Improved financial capability will enable individuals and businesses to confidently: make financial decisions; engage with financial services; and address the misconceptions, disincentives, and consumer behaviors that discourage formal financial service use.

Intermediate Result (IR) 1.1: Increased financial capacity among targeted individuals.

Under this IR, the activity will improve citizens' understanding of how to manage their finances, the benefits of financial inclusion, and how the financial sector works in Colombia. Underserved populations often have a negative perception of financial services providers due to their lack of contact with these providers. These populations also lack understanding about how the financial sector works, and they prefer to solve their financial needs through informal financial services, like loan sharks, that are more costly and present risks to personal safety.[9] Financial education efforts will improve underserved populations' understanding of, and interest in, the benefits of using formal financial services.

Illustrative interventions:

- Support the GOC's efforts to implement financial education programs at various levels starting with basic education.
- Facilitate underserved populations' understanding about the benefits of actively participating in cashless and digital payments ecosystems and enhance their digital literacy.

Intermediate Result (IR) 1.2: Increased financial capacity among MSMEs.

Under this IR, the activity will enhance business owners and entrepreneurs' capacity to develop and present bankable business plans to financial services providers. One of the reasons that MSMEs are rejected financial service access is due to lack of record keeping, poor management, and lack of formal credit history. Informal and underserved population business owners also lack the ability to present cohesive business plans needed to be considered by a financial services provider. This IR will improve business owners' financial literacy so that they can make informed financial decisions, better access formal financial services, and have a greater likelihood of entrepreneurial success.

Illustrative interventions:

- Incentivize the creation and strengthening of business development services providers that provide business management support to underserved population-owned businesses.
- Facilitate the creation and strengthening of community associations and cooperatives that provide technical assistance and business management capacity building to MSMEs and entrepreneurs.
- Promote the creation of collaborative economic clusters comprising individual MSMEs.
- Support the formalization of informal MSMEs.
- Promote the use of digitally enabled service offerings and business solutions that can help build credit worthiness and improve business operations, like the use of digital payment applications.

Target 1: The financial capability of activity beneficiaries, including MSMEs, improved by 50% from their current capacity.

Objective 2: Increased provision of financial services in target communities.
This objective will improve underserved populations' access to financial services. It will do this

[9] Loan sharks are often associated with mafias and illegal armed groups.

by strengthening financial service providers' capacity to provide services and by increasing financial service providers' presence in rural communities. This objective will also support the development and use of digital financial services.

Intermediate Result (IR) 2.1: Increased capacity to provide services among financial service providers.

Financial institutions that have traditionally served urban businesses do not have the appropriate lending methodologies and financial instruments needed to serve rural and agri-business value chains. Many microfinance providers also lack the knowledge and technical capacity to evaluate risk of long-term financial instruments or agricultural value chain lending. Collection of information to assess creditworthiness of different segments of marginalized populations needs to be adjusted depending on the cultural behavior of the client. Under this IR, the activity will strengthen financial institutions' capacities to provide financial services to underserved populations through technical assistance and other types of support.

<u>Illustrative interventions:</u>

- Provide technical assistance to financial services providers to develop inclusive financial instruments for underserved population access.
- Enhance financial institutions' skills, strategies and communications toward market segments that include underserved populations.
- Enhance financial institutions' staff hiring practices and training to reduce biases.
- Increase financial institutions' capacity to prevent and address client grievances.
- Support the design of value-chain financing methodologies, especially for non-traditional agricultural activities and non-traditional businesses.

Intermediate Result (IR) 2.2: Expanded presence of financial service providers in target communities.

Under this IR, the activity will reduce the disincentives and transaction costs associated with providing financial services to underserved populations. Financial institutions must invest considerable resources in personnel, infrastructure and communication to attend rural and underserved communities. Through this IR, the activity will increase the availability of financial points of contact by expanding the physical presence of traditional channels, like cash agents, and by promoting alternative financial service methods.

<u>Illustrative interventions:</u>

- Implement incentive grants to cost-share the opening and provision of new, reliable, and innovative financial points of contacts, like brick and mortar branches, mobile branches, cash agents, and mobile cash agents.
- Create gender-inclusive financial service distribution channels.

- Create linkages between financial service providers and producers' associations so that these associations can act as financial service access points through their field representatives.

Intermediate Result (IR) 2.3: Increased provision of digital services by financial service providers.

Digital financial services facilitate financial service provision in underserved communities and economic sectors. This IR aligns with USAID/Colombia's focus on digital transformation and implementing the Digital Ecosystem Country Assessment Report (DECA) recommendations. Under this IR, the activity will work with FinTechs, financial services providers, and Colombian financial regulators to support continued digital finance provision innovation.

<u>Illustrative interventions:</u>

- Incentivize new digital solutions and inclusive digital finance products, like savings, loans, insurances and financial management tools, through challenge grants.
- Work with FinTech and financial service providers to incorporate human-centered design practices in how products are designed and marketed, taking into consideration behavior and rational economic decision making of underserved populations.
- Improve financial service providers' readiness to manage and mitigate cyber security risks that could lead to harm for consumers, MSMEs, and the financial sector.

Target 2A: Facilitate the financial inclusion of 200,000 new underserved customers.
Target 2B: Facilitate the mobilization of $500 Million in financial services.

Objective 3: An improved ecosystem for the financial inclusion of underserved populations.
This objective will facilitate access to, and supply of, financial services for underserved populations. It will do this by increasing the availability of information about underserved populations' financial service use and needs, and by improving regulatory reforms related to financial inclusion.

Intermediate Result (IR) 3.1: Improved collection and use of financial consumer data.

Under this IR, the activity will increase the availability of information about the barriers and disincentives that limit underserved populations' financial inclusion. Lack of information about underserved populations reduces policy makers' ability to make informed decisions of how to better economically integrate these populations. Lack of information also prevents financial and non-financial actors from designing, adapting or marketing their products to respond to underserved populations' economic needs, behaviors and preferences. Increased access to information will enable private and public entities to target underserved populations as new clients, and to design human centered financial products.[10]

Illustrative interventions:

- Create financial observatories for specific underserved population segments, like youth, migrants, women, LGBTQI+, Afro -Colombians, indigenous peoples and rural producers and MSMEs.
- Gather information about specific underserved population segments' economic behaviors through financial diaries.
- Increase availability of public data, made available via industry initiatives, civil society, regulators, or donor partners, on underserved populations' financial behaviors, aspirations, and circumstances.
- Build stakeholder awareness of key insights and spotlight ways in which financial service providers can incorporate information into the way that they deliver financial services.

Intermediate Result (IR) 3.2: Enhanced regulatory frameworks for financial inclusion.

Strengthening Colombia's existing financial regulatory framework will increase customer's trust in, and use of, the financial system. Under this IR, the activity will assist the GOC to make financial regulatory framework reforms required to enhance consumer's service access and rights protections. These reforms will reduce the barriers and disincentives that prevent underserved populations' financial inclusion.

Illustrative interventions:

- Work with financial regulators to enhance rules, systems, and processes for financial consumer protection, like enhanced convenience and speed of complaints portals.
- Provide technical assistance to the GOC to present regulatory reforms to the Colombian Congress when required.

Target 3A: Increase the public availability of data related to underserved populations' financial and economic behaviors by 50%
Target 3B: Adoption by the GOC of at least one set of regulatory recommendations that promote underserved populations' financial inclusion.

Special Objective: Increased mobilization of long-term financial capital in USAID's priority sectors.

[10] As an illustrative example, financial services providers have mentioned that an important factor of not attending artisan miners is the lack of understanding about miners' economic behavior. Financial service providers also lack the ability to corroborate information provided by the miner, like the legality and environmental compliance of their mining activity.

This special objective is different from the previous objectives because it will target the financial sector, including medium and large companies, and will leverage resources towards CDCS objectives.[11] *This special objective will mobilize long-term capital needed to invest in productive capital, like machinery, that will enhance business' overall productivity. Long-term capital is also needed to fund USAID priorities like digital innovation, rural development, alternative development, and environmental conservation. Achieving this special objective requires strengthening long-term finance instruments and incentivizing mechanisms that mobilize long-term financial capital resources. The activity will collaborate with other US government entities, like the DFC, to structure financial deals, provide the financial technical assistance, and incentivize private sector investment in prioritized geographic regions and economic sectors. This activity may also collaborate with GOC Development Banks like FINAGRO, BANCOLDEX, and FINDETER.*

Illustrative interventions:

- Develop alternative finance instruments, like equity and investment capital funds, and/or blended finance facilities.
- Incentivize movable property lending, or asset-based lending, through a DFC guarantee program.
- Work with Colombian Development Banks, including FINAGRO, BANCOLDEX, and FINDETER, to mobilize GOC funding through risk sharing mechanisms.
- Implement project finance solutions[12] in collaboration with DFC to mobilize funds towards the following development objectives:
    - Renewable energy and climate change mitigation in Development Plans with a Territorial Approach (PDET) municipalities;
    - Formalization, legalization and incorporation of good environmental practices in artisanal mining;
    - Job creation and employment opportunities for the migrant population;
    - Productive lending towards women owned businesses; and
    - Long-term productive lending for rural development, and alternative development for coca farmers during their transitionto licit agricultural value chains.

Special Objective Target: Mobilize $200 million in long-term financial investments towards CDCS objectives.

[11] Objectives one through three are also more targeted towards vulnerable populations and improved access for these populations to short term capital, like money needed to buy inventory.

[12] Project finance refers to the funding of long-term projects, such as public infrastructure or services, industrial projects, and others through a specific financial structure. Finances can consist of a mix of debt and equity. The cash flows from the project enable servicing of the debt and repayment of debt and equity

GEOGRAPHY. The activity will focus interventions in rural, PDET municipalities,[13] particularly populations underserved by financial services, including youth, women, migrants, agricultural producers, rural MSMEs, Afro-colombians, indigenous peoples, internally displaced persons and other populations affected by conflict or environmental degradation. These areas of the country have significant gaps between men and women in terms of economic opportunities. The activity will first consider PDET municipalities in the regions of Bajo Cauca, Pacifico Nariñense and Catatumbo, but the activity may also consider other regions. This territorial approach aligns with the USAID/Colombia's 2020-2025 CDCS and the Regional Integration Strategy (RIS). Eventually the activity might consider including urban municipalities with high presence of migrant communities.

ADAPTIVE MANAGEMENT. The activity will incentivize financial sector actors, not implementing partners, to provide financial services directly to underserved populations. This strategy requires that activity constantly adapt its management depending on current economic market conditions and other situations already described in the risks and assumptions section. For example, the activity will continuously monitor regional security[14] situations because security incidents may limit financial service providers' ability to access technical assistance and hinder citizens' ability to participate in financial education programs. The activity will also practice adaptive management, including online meetings and remote technical assistance, and ensure that remote events also take differentiated needs and access to technology into account especially when working with MSMEs and underserved communities. The Special Objective will support adaptive management by enabling the Mission to leverage financial capital and private sector investment that complements USAID's resources and enhances long term CDCS sustainability.

ALIGNMENT. The activity will advance CDCS Development Objective (DO) 3: Promote Equitable and Environmentally Sustainable Economic Growth. The activity will contribute to this objective by facilitating and enhancing financial services access, and by creating greater economic equality and a healthier financial environment. The activity will also contribute towards IR 3.2 *More Competitive Licit Economies* and IR 3.2.2 *Increased private sector investment and access to financial services*. It will do this by providing incentives for the private sector to invest in rural and conflict-affected areas where the private sector has previously been reluctant to invest. In turn, increased private sector investment will increase underserved communities' access to financial services, and will espouse licit and long-term job creation opportunities. Finally, the activity will create long term, sustainable solutions for financing in Colombia, so that the country can achieve its own development goals.

[13] In particular the 112 PDET municipalities the Mission has targeted under the CDCS.

[14] In terms of security, rather than a risk of implementation there is a risk of achieving the expected results; technical assistance and capacity building can be provided in safe environments (eg: financial entity's headquarters) or remote, but security deterioration might imply that financial points of contact have to close down. Rather than a risk for the activities' implementing partners there is a risk for the financial partners

CROSS-CUTTING ISSUE INTEGRATION. The Equitable and Resilient Finance activity will contribute to the implementation of the DECA recommendations for Colombia. The activity will specifically focus on addressing those DECA recommendations related to enhancing access and utilization of digital financial services. The activity will facilitate financial inclusion and financial access for underserved communities. Communities defined as underserved include: youth, migrants, women, Afro-Colombians, indigenous peoples, LGBT communities, and rural producers and MSMEs. The activity will use a differentiated approach for engaging with these populations, if needed. For example, previous USAID interventions increased women's access to loans by working with service providers to eliminate the requirement that women's husbands co-sign their loan applications. The activity will have strong environmental considerations and will introduce sustainable finance concepts. For instance, finance can play an important role in facilitating investment in environmentally friendly projects like low carbon transition and circular economy. The activity will encourage financial sector actors to invest in environment protection priorities like climate change adaptation, the promotion of environmental markets, and the development of eco-friendly businesses. Finally, USAID/Colombia recognizes the importance of private sector engagement, particularly private financial entities, in mobilizing resources towards Colombia's development goals. USAID/Colombia has already established partnerships with over 30 financial services providers that can effectively contribute towards this purpose. This activity will leverage these partnerships and will develop incentives and risk mitigation instruments to facilitate long-term financial resources mobilization. Private sector partnerships also contribute to long-term activity sustainability.

Section II
USAID/Equitable and Resilient Finance
Request for Information

1. Would your organization be interested in applying to this upcoming opportunity or partnering with another organization to participate? If yes, please provide a description of your organization's background and experience related to the purpose of the activity.
2. What major gaps have you identified that are missing within the scope of this concept note?
3. While the targets are meant to be aspirational, are the objectives feasible?
4. One of the main challenges that USAID has had in the past is to be able to facilitate long-term finance to rural producers supported by other USAID activities. Microfinance instruments are useful for financial inclusion and MSME's working capital needs but is not a suitable option for long term financing (more than 18 months) that is required for capital investments, crop expansion and alternative development. What type of approaches would your organization recommend for facilitating access to longer term capital?
5. IR 1.2 is intended to enhance financial capacity of micro and small businesses. What types of solutions would your organization recommend for scaling up the provision of business development services to this type of businesses?
6. Considering the implications of Covid-19, how do you think this activity could support economic recovery?
7. The *Special Objective* might require a completely different type of intervention that the one required for achieving Objectives 1,2 and 3. Which are your recommended interventions towards advancing on this specific objective. Do you consider that this objective might require a separate procurement mechanism?
8. What are some market driven lessons learned in financial inclusion for women, victims, youth, LGBTI, Afro-Colombian, indigenous, and migrants? In your experience does these segments of the population require a differential approach for accessing financial services?
9. In your opinion, which are the key challenges for facilitating financial inclusion of artisan miners in Colombia?
10. What are key differences in financial inclusion for underserved population in urban areas (Colombian cities) vs. PDET municipalities?
11. What types of incentives would require the financial institutions to invest and expand their services in PDET municipalities?
12. How crucial is connectivity to expand financial services? Are there specific regions or PDETs municipalities that are more challenging than others?
13. Do you have any additional suggestions or comments?