Kifiya Financial Technologies PLC

Request for Quotation

The loan costs of Ethiopian MSMEs: Comparative analysis and policy options

1. Background

For many Ethiopian MSMEs, the costs of obtaining a loan impose a significant constraint on their ability to reinvest profits and grow. If we imagine a small retailer taking a one-month working capital loan of e.g. 50k Birr, he/she might have to pay a 10% monthly interest rate, corresponding to 120% per year, assuming no additional fees and charges are applied. If he/she generates, e.g. 150k Birr in monthly revenue and earns 15% in profits on that, the loan costs represent 22% of the retailer's profits.

For larger firms, the interest rates charged would generally be much smaller due to, e.g. the size and tenor of the loan. Though this is to some extent justified by the fact that small firms are riskier and harder to evaluate than large firms, there is a concern that Ethiopian MSMEs may be paying more than is warranted by actual lending costs. Thus, market interest rates for MSME loans to some extent reflect precedents and market norms rather than actual lender unit costs. Looking beyond prices, responsible microfinance provision also involves standards for, e.g. price transparency and borrower protection, the violation of which adds to the personal costs borne by MSME owners. Reducing the cost of capital for MSMEs is crucial, both for the businesses themselves and for the broader goals of job creation, broad-based productivity growth, and poverty reduction in Ethiopia.

To understand how to address these issues, Kifiya seeks to engage a qualified research firm to conduct a comprehensive study.

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2. Objectives of the Assignment

The research project aims to understand the factors that drive the loan costs for MSMEs in Ethiopia and propose actionable measures to reduce these costs.

The selected firm will be responsible for:

A. **Translate complex terms into intuitive metrics for MSMEs by modelling loan costs for a stylised MSME (short scene-setting section with an instructive aim):**
   - Use a simple model MSME and realistic parameters/loan terms to illustrate how high annualised interest rates can be commercially viable for fast-turnover businesses.
   - Explain in plain language and simple terms why the loan costs as a share of monthly profits convey a more accurate picture of the costs and benefits of borrowing than the annualised interest rate.

- Discuss what level of loan costs would be sustainable from the borrowers' perspective, that is, how much of the borrower's profit should objectively go to grow the firm, given the loan tenor, loan size, and collateral requirements of typical MSME loans.[1]

B. **Compare the loan costs of Ethiopian MSMEs with the costs of the lenders:**
   - Calculate the unit costs of credit for lenders using a build-up model. In particular, specify the lenders' cost of funds, cost of equity, operating costs, and risk premia. This should be done for different lenders and for different borrowers (cf. section 4 below).
   - The calculation should be based on data from financial statements (if necessary, Kifiya can provide these data for banks). To differentiate between borrowers and loan products, the data should be coupled with assessments by a team of experts or alternative data. In the proposal, please provide CVs of the participating experts and specify which data will be used.

C. **Compare the loan costs of Ethiopian MSMEs with the loan costs of other borrowers:**
   - Collect data on loan costs for different lender/borrower types in Ethiopia and a range of peer countries (cf. section 4 below). Data should be collected for sufficiently large and representative samples of each lender/borrower type to allow for reliable generalisations. For Ethiopian lenders/borrowers, the firm should collect price data directly from lenders and/or borrowers. For the international comparisons, the researchers may rely on data from existing sources. We are particularly interested in working capital loans.
   - Calculate comparable loan costs for the different lender/borrower types.

D. **Identify drivers of the loan costs of Ethiopian MSMEs:**
   - Conduct expert and stakeholder interviews and review relevant literature to identify drivers of interest rates paid by MSMEs.
   - In particular, identify drivers of the gap between, on the one hand, the loan costs of Ethiopian MSMEs and, on the other hand, (A) the rate implied by responsible microfinance considerations; (B) lender costs of credit; and (C) the rates paid by other borrowers.

E. **Recommend strategies to reduce the loan costs of Ethiopian MSMEs:**
   - Based on the findings, outline actionable recommendations for securing responsible, reasonable and affordable loan costs for MSMEs and advancing MSME lending towards the broader targets of responsible microfinance provision.
   - Assess and rank policy options by cost and effectiveness.

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3. Scope of Work

The firm will:

- Design and implement a mixed-methods research approach.
- Collect primary and secondary data: Conduct lender surveys to obtain interest rate data, review relevant literature and secondary data sources, and conduct interviews with experts and stakeholders.
- Analyse results.
- Deliver a comprehensive report with findings and recommendations.

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[1] The criteria for *sustainability* could be patterned on Cerise+SPTF's principles for responsible provision of digital finance. See also this note by CGAP for a discussion of how to set an MFI interest rate that is sustainable for both the borrower and the MFI.

4. Target Population

The main object of study is Ethiopian MSMEs in different sectors (agriculture, manufacturing, and service) and the costs of their working capital loans.

For the price and cost comparisons, we are interested in comparisons between different lender types (banks/MFIs/SACCOs/digital lenders) and borrower types. The relevant borrower types include firms differentiated by size and formality (informal MSMEs/formal MSMEs/large firms), sector (agriculture/manufacturing/service), residential area (urban/rural), and country (Ethiopia/peer countries). In the proposal, please specify which countries will be used for comparison.

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5. Methodology

- **MSME case modelling**: Financial modelling of MSME borrowing scenarios using realistic parameters. Calculation of loan cost metrics.
- **Benchmarking analysis of effective interest rates**: Collection of data on lending rates and fees across different lender/borrower types. Calculation of comparative loan cost metrics.
- **Cost Structure Analysis**: Analysis of lender financial statements coupled with expert interviews, and possibly internal lender data.
- **Stakeholder Interviews:** KIIs with e.g. bank pricing officers, MFI executives, regulators, as well as national and international financial sector experts.
- **Validation Workshops:** Convene sessions with regulators, banks, Kifiya and MasterCard Foundation for data and findings validation.

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6. Deliverables

- Inception report including research design, methodology, tools (survey, and KII questionnaires and guides), sampling strategy, workplan with deliverables and milestones.
- Cleaned datasets.
- Analytical report with key findings.
- Weekly progress discussions and updates. Each subsection of what will become the final report are delivered for review and feedback as they are produced, cf. Timeline below.
- Presentation of key actionable insights and strategic recommendations – in the form of a PPT for external or donor use and an oral presentation of this. Hybrid option preferable for quicker turnaround. Leave an option for two or more in-person touchpoints at Kifiya HQ, Addis Ababa, as well as a learning event with key stakeholders in Addis Ababa.

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7. Timeline

Activities	Weeks 1 to 2	Weeks 3 to 6	Weeks 7 to 8	Week 9	Week 10
Submission of inception report with detailed methodology, data collection, analysis, reporting and presentation in a work plan/Gantt chart.					
Develop research tools (lender survey, interview guides), finalise sampling strategy. Set up KII appointments.					
Kifiya review of submission of methodology and tools, and final approval of same.					
Collect quantitative and qualitative data.					
Analyse MSME case model and lender cost data.					
Kifiya review of MSME case model and sustainability considerations					
Analyse borrower-specific interest rate data					
Synthesise findings					
Present actionable insights and recommendations in PPT					
Kifiya review of findings					
Submit the narrative report					

Deliverables by week

Week	Key Activities	Deliverables
1	- Prepare and submit inception report with detailed methodology, data collection plan, analysis approach, reporting framework, and Gantt chart. - Begin developing research tools (lender survey, KII guides, borrower survey). - Finalise sampling strategy.	- **Inception Report** (incl. methodology, sampling plan, work plan, Gantt chart) - **Draft research tools** (surveys, interview guides) - **Finalised sampling strategy**
2	- Continue development of research tools. - Schedule KII appointments with key stakeholders.	- **Finalised research tools** - **Confirmed KII appointment schedule**
3	- Submit methodology and tools for Kifiya review. - Collect initial quantitative and qualitative data.	- **Kifiya-reviewed methodology & tools** (with approval) - **Initial dataset (partial)**
4	- Continue data collection (quantitative & qualitative).	- **Updated dataset** (expanded coverage)
5	- Complete data collection.	- **Full raw dataset** (quantitative & qualitative)
6	- Analyse MSME case model. - Analyse lender cost data.	- **Draft MSME case model analysis** - **Draft lender cost analysis**
7	- Kifiya review of MSME case model and sustainability considerations. - Analyse borrower-specific interest rate data.	- **Reviewed MSME case model** (with Kifiya inputs) - **Draft borrower interest rate analysis**
8	- Synthesise all findings. - Prepare presentation of actionable insights and recommendations.	- **Synthesised findings document** - **Draft PPT presentation**

Week	Key Activities	Deliverables
9	- Present actionable insights and recommendations to Kifiya. - Receive feedback on findings.	- **Delivered presentation to Kifiya** - **Feedback log from Kifiya**
10	- Incorporate feedback. - Submit final narrative report.	- **Final narrative report** (integrated with Kifiya feedback) - **Final PPT for external or donor use**

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8. Eligibility Criteria

Interested firms must demonstrate:

- Proven experience in conducting financial sector analyses and qualitative research in Ethiopia or East Africa. Key research personnel should have 7-10 years of experience in conducting similar studies.
- Ability to design and conduct a study in English and local languages (Amharic, Afan Oromo, Tigrinya)
- Expertise in livelihoods, economic research, and financial services.
- Capacity to manage data collection and analysis.
- Familiarity with ethical research practices, safeguarding and data protection.

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9. Submission Requirements

Firms should submit:

- Company profile and other relevant experience. (One page)
- Technical proposal outlining methodology and work plan. (Four pages maximum)
- CVs of key personnel.
- At least two references from similar assignments, with a sample of at least one document.
- Renewed business licence, TIN, and VAT certificates.
- Financial proposal (Submit both financial and technical proposal separately)

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10. Evaluation Criteria

- Technical expertise and relevant experience (50%)
- Methodology and approach (20%)
- Financial proposal (including all travel, equipment, taxes, etc.) required to complete study & deliverables (30%)

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11. Submission Instructions

- Deadline: **5:30 PM**, East Africa Time on **September 4, 2025**
- Format: **stamped PDF** documents via email
- Submitted to: **Procurement@kifiya.com**

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12. Disclaimer and confidentiality notice

Kifiya reserves the right to review, negotiate and approve the inception report before the commencement of the study. Kifiya reserves the right to accept or reject any submission, cancel the process, or modify the scope of work without prior notice. These Terms of Reference do not constitute a contract between Kifiya and the consultant, and as such separate consultancy contract outlining the terms and conditions shall be signed. The Consultant shall have a duty to keep all proprietary information confidential and shall not disclose without the prior approval of Kifiya.