Terms of Reference (ToR)

IsDBI Technical Assistance Number PAK1062

Project Name: IsDBI-SECP Report on Shariah Compliant Digital Financing Products

1. **Objective of the IsDBI-SECP Report on Digital Financing Products:**

The primary objective of this project is to develop acceptable Shariah-compliant structures of various forms of digital financing products in the context of Pakistan. The study shall also cover detailed illustration of product models based on proposed Shariah structures. Further, the study is also expected to provide financial viability and legal compatibility for each of the proposed product models.

Key focus areas of the Report include but not limited to;

* Conducting in-depth research on the digital financing landscape of Pakistan, highlight challenges and opportunities, with special focus on need for Shariah compliant alternatives.
* Exploring Shariah principles and rules relevant for the development of Shariah-compliant digital financing products.
* Exhibiting and explaining widely acceptable Shariah-complaint financial product models and structures for specified types of digital financing segments/markets.
* Conducting legal and regulatory compatibility analysis and financial viability analysis of the proposed products to identify bottlenecks and challenges.
* Identification of international best practices in Shariah-compliant digital financing.
* Recommending suitable Shariah-compliant product models and structures for non-bank financial institutions in Pakistan.
* Recommending policy interventions including for regulatory development, product developments, removing bottlenecks and addressing challenges.

# Scope and Methodology of the Project:

The study is expected to develop Shariah compliant structures and product models of digital financing in Pakistan. Shariah structure of the product shall include underlying contract, identification of various parties involved in the contract, delamination of their roles and responsibilities, rights and duties and transaction flow, etc. The product model and structure shall also elaborate how the same is Shariah compliant, provide basis of the opinion and possible/potential eliminates of Shariah non-compliances. Furthermore, the Shariah structure shall also provide mechanism of ensuring Shariah compliance during abnormal situations, i.e. loss or default, excessive profit, etc.

The study shall also develop product model(s) based on the recommended or preferable Shariah structures. The Shariah compliant digital financing product shall include key features of the product, its pricing mechanism, late repayment and default. Further, the study shall also contain the financial viability of the proposed product based and compatibility analysis with the existing regulatory regime. Based on the compatibly analysis, the study will identify legal/regulatory bottlenecks and propose changes in the regulatory regime.

Specifically, Shariah compliant product models will be developed for the following categories of digital financing.

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| --- | --- |
| **Category** | **Types of products and description** |
| **Digital Business to Customer (B2C) Financing** | 1. **Digital Nano Lending:** Digital lending products providing unsecured, instant short-term loan to customers. 2. **Digital Consumer Financing:** Digital financing products for consumer financing of goods and services. 3. **Buy Now Pay Later (BNPL):** Digital financing products or services which allows consumers to purchase products or services on deferred payment, for which the BNPL provider makes direct or indirect payment to the supplier. This shall also cover service-based buy now pay later models, e.g. Study Now Pay Later, etc. 4. **Earned Wage Access (EWA):** Digital products providing access to earned but unpaid wages/salaries. 5. **Salary Advance Financing (SAF):** Digital financing product providing short term loan against future salary of the customer. |
| **Digital Business to Business (B2B) Financing** | 1. **Working Capital Financing (WCF):** Short-term digital financing to meet the operational expenses of businesses. 2. **Stock/Inventory Financing (SF/IF):** Financing or providing line of credit for purchasing products for resale. 3. **Cash on Delivery Financing (CODF):** A digital arrangement wherein e-commerce sellers get upfront payment against stocks sent for delivery on COD. |

For the purpose, the study shall consist of gathering primary and secondary information through qualitative research, literature review, consultation with Shariah scholars and industry players, review of the applicable shariah principles and rules, existing product models and structures and existing legal/regulatory regime. To ensure development of widely acceptable Shariah structure, opinion and views of all major school of thoughts shall be considered, along with consultation with prominent scholars. Further, to assess the financial viability of the proposed product models, industry players providing digital financing products will be consulted.

# Working Modalities:

The Consultant will work with a project team comprising SECP officials and nominated officers from the Islamic Development Bank Institute (IsDBI) to produce a high-quality practical Report for Shariah-compliant product in the Islamic financial institutions. A project team focal point from the SECP/IsDBI will be appointed as the main contact point for the consultant. The following sections elaborate on the scope of work of the Consultants.

# Deliverables and Scope of Services:

The main deliverable from the consultant will be IsDBI-SECP Report which will achieve objectives and scope as highlighted above in sections 1 and 2. The Report will serve as a policy document that will assist the regulatory for policy actions and will also assist financial institutions in developing Shariah compliant digital financing products. The report is expected to be of approximately 70 pages that include framework diagrams, illustrations, flowcharts, tables and appendix.

1. **Timeline of the project (after the contract signature):**

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| --- | --- | --- |
|  | **Tasks** | **Due Date** |
| 1 | First draft covering background research on digital lending landscape in Pakistan, identifying widely acceptable Shariah compliant structures and review of best practices of at least six jurisdictions | 1 Month |
| 2 | Second draft covering proposed model of Shariah compliant digital financing for types specified, their financial viability and regulatory and legal compatibility | 1 Month |
| 3 | Third draft covering recommendation and policy intervention for stakeholders including legal and regulatory development, product development. | 1 Month |
| 4 | Release/Launch of the Report | TBD |

1. **Selection criteria**

The submission must demonstrate sufficient information regarding the below criteria. Not providing / meeting / responding to any of these requirements may lead to ineligibility of the Individual consultant.

1. Should have at least a master’s degree in economics, finance, Islamic finance, or related fields with 10 years or more experience in Islamic finance, financial inclusion, digital finance and other related areas.
2. Should have a clear understanding of digital financial products, with demonstrated experience in innovative product structuring in the Islamic financial services industry.
3. Should be well familiar with the financial sector and Islamic finance services industry in Pakistan, and experience in policy advice and recommendations in the country’s context is an added advantage.
4. Should have an in-depth understanding of views of all major schools of Shariah law with regards to the subject matter.
5. Should have demonstrated experience and background in ability to conduct financial viability analysis of the proposed product models; and provide feasible recommendations to the regulatory and supervisory authorities of Pakistan.
6. List of all projects/assignments performed so far directly relevant to the topic of this assignment.

The selection will be based on criteria comprising the below factors with a maximum total score of 100 points. The minimum qualifying score will be 8**0%**. The highest scored consultant will be awarded the contract for the assignment, subject to contract negotiations within allocated budget.

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| **S.No** | **Evaluation Criteria** | **Maximum Score** | **Scoring Criteria** |
| **1** | **GENERAL QUALIFICATION** | **30** |  |
| 1.1 | Academic Qualification  (maximum score will be given only on the basis of higher degree qualification / degree of candidate) | 10 | Master’s in relevant specified fields = 05 Marks  PhD in relevant specified fields = 10 Marks |
| 1.2 | General Experience | 20 | Below 10 years = 5 Marks  Between 10 to 15 years = 10 Marks  Above 15 Years = 20 Marks |
| **2** | **ADEQUACY OF THE CONSULTANT’S EXPERTISE AND EXPERIENCE FOR THE**  **ASSIGNMENT** | **50** |  |
| 2.1 | Similar reports prepared before | 10 | Below 5 Nos = 5 Marks  5 and Above Nos = 10 Marks |
| 2.2 | Clear understanding of digital financial products, with demonstrated experience in innovative product structuring in the Islamic financial services industry | 10 | 2.5 Marks per project |
| 2.3 | Familiar with the financial sector and Islamic finance services industry, and experience in policy advice and recommendations. | 10 | Below 10 years = 5 Marks  10 years and Above = 10 Marks |
| 2.4 | In-depth understanding of views of all major schools of Shariah law with regards to the subject matter | 10 | 2.5 Marks per project |
| 2.5 | Demonstrated experience and background in ability to conduct financial viability analysis of the proposed product models; and provide feasible recommendations to the regulatory and supervisory authorities. | 10 | 2.5 Marks per project |
| **3** | **EXPERIENCE IN THE REGION AND SECTOR** | **10** |  |
| 3.1 | Familiar with the financial sector and Islamic finance services industry in Pakistan, and experience in policy advice and recommendations in the country’s context is an added advantage | 10 | 01 project =5 marks  2 and Above projects: 10 marks |
| **4** | **LANGUAGES** | **10** |  |
|  | Technical skills and proficiency in English language | **10** | Fluency as demonstrated by written outputs i.e. in the English Language |

1. **Instructions to Consultants and Payment Terms**

The contract will be a lump-sum based on payment and performance milestones as follows:

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| --- | --- |
| Payment details | Payment terms |
| 50% | Upon completion of the first three milestones as specified above in para no. 5. |
| 50% | Upon the approval of the final version of the report |

The estimated effort required from the individual consultant for this project is 30 working days based on an 8 hours per day working basis. However, the project implementation and approval timeline is as per Section 5 of this ToR.

Other general instructions include as follows:

* Taking parts of the different phases of Shariah compliant digital financing product structuring.
* Committing with the agreed timeline and keep the Secretariat informed with any unforeseen delay.
* Preserve the confidentiality of the shared information related to the project.
* Adhere with the agreed clauses in the Service Consultancy agreement.

For any technical queries or clarification, the consultant may send an email to the focal person on the below contact details:

[isdbinstitute@isdb.org](mailto:isdbinstitute@isdb.org)

CC: [info@isdbinstitute.org](mailto:info@isdbinstitute.org)