
**TERMS OF REFERENCE
FOR CONSULTANCY SERVICES ON THE TECHNICAL ASSISTANCE
FOR THE DEVELOPMENT OF WHOLESALE LENDING PRODUCTS FOR
TANZANIA AGRICULTURAL DEVELOPMENT BANK (TADB)**

Theme: Development of Wholesale Lending Products
Location: Dar es Salaam, Tanzania
Timing: 2nd April – 30th June 2017
Length of the assignment: 25 working days

1. INTRODUCTION

1.1 About FSDT

The Financial Sector Deepening Trust (FSDT) was incorporated in Tanzania on 1st July 2004. The FSDT's overall aim is to develop a deeper financial system that can provide greater access to finance for more Tanzanians. Among its secondary objectives are:

- Advocating for an improved policy, institutional, legal and regulatory framework at national and sub-national levels of financial services.
- Promoting more relevant market infrastructure, and ways to reduce transaction costs between FSPs and potential clients,
- Stimulating improved access to financial products and services that respond to the needs of MSMEs,
- Stimulating improved access to financial products and services that respond to the needs of households and individuals.

2. BACKGROUND

FSDT AGRICULTURE AND RURAL FINANCE

FSDT supports the development of agricultural finance in Tanzania through, among other means, facilitating innovations in agricultural finance products and services. The facilitated innovations are expected to reduce the transaction costs of agricultural finance and increase the quality and impact of finance by providing appropriate (in cost, tenure, and utilization) solutions.

FSDT realizes low levels of lending to agriculture contributes to underinvestment in the sector

The agriculture sector in Tanzania has long suffered from low lending from commercial banks and from the financial sector in general. The sector accounted for only 8% of bank lending despite accounting for almost 70% of employment and about 19% of GDP (2014 BOT). Growth in lending to the sector is at only 7%, the lowest growth rate of lending by commercial banks in Tanzania. The low financial flows to agriculture sector results in under investment in the sector and perpetuates poverty for the 70% of population that is employed in the sector. Reversing this trend will require a host of interventions to improve the ecosystem that surrounds agriculture activities and value chains. However, key among the potential solutions is increasing the liquidity targeted to agricultural finance, as a way to mitigate the opportunity costs that commercial banks face towards lending to agriculture.

FSDT realizes that targeted liquidity is important to promote lending to agriculture

Liquidity, the availability of liquid assets or funding for the financial sector, is an important prerequisite to availability of loans. Low liquidity affects a financial institution's ability to offer innovative and appropriate loans. An environment of tight liquidity is likely to lead to reduced lending and limited innovations in agriculture lending. Providing targeted liquidity to commercial banks for the purpose of lending towards agriculture is therefore an important intervention to increasing the financial flows to the agriculture sector in Tanzania.

3. PROJECT PARTNER - TADB

Tanzania Agricultural Development Bank (TADB) is a Development Finance Institution (DFI), which is wholly state-owned by the Government of the United Republic of Tanzania. As an apex policy bank, TADB is geared towards increasing productivity in the agriculture sector and transforming smallholder farmers from subsistence to commercial farming; the Bank also is providing policy advocacy and catalyzing other Financial Institutions to lend to the agricultural sector.

TADB obtained its banking license in August 2015 with initial capital of TZS 60.0 billion, which was considered very small to undertake Wholesale Lending by that time; Hence, this compelled the Bank to launch its credit operations by direct lending to smallholder farmers. As a result, plans to offer Wholesale Lending to Banks and Financial Institutions were postponed until when the Bank source sufficient funding to expand its credit operations.

TADB has been exploring alternative funding sources from domestic and overseas avenues in order to offer medium and long term financing to the agricultural sector. Following these initiatives, the Bank has managed to secure an approved loan facility of UA 67.27 million (equivalent of USD 95.51 million or TZS 204.4 billion) from the African Development Bank (AfDB). These funds will be disbursed to TADB starting from February 2017, hence facilitate TADB to reinstate Wholesale Lending in line with its DFI mandate.

Based on the foregoing, it is now an urgent matter for TADB to develop Wholesale Lending Products such as refinancing, pre-financing and co-financing in order to adequately utilize the funding from AfDB. Rollout of these Products will assist provision of much needed financing to the agricultural sector in order to effectively and sustainably contribute to inclusive economic growth, poverty reduction and financial inclusion.

3.1 FSDT Collaboration with TADB

FSDT supports TADB in its efforts to provide liquidity to financial institutions for the purpose of agriculture lending. The liquidity, provided through wholesale lending to banks and financial institutions, will catalyze and incentivize financial institutions to lend to agriculture, and potentially, facilitate the development of innovative and appropriate loan products for the agriculture sector in Tanzania.

To enable TADB to provide wholesale lending, FSDT is facilitating a consultant to do the preliminary market research and to develop wholesale product(s) and strategy for TADB.

4. OBJECTIVE OF THE ASSIGNMENT

The objective of this assignment is to develop a Wholesale Lending Products that will be utilized to on-lend funds from TADB to Commercial Banks, Community Banks, Microfinance Institutions, Government Public Institutions and Agencies, SACCOS, Farmer Organizations/Associations, NGOs, Cooperatives and other institutions involved in agriculture value chain financing.

5. SCOPE OF WORK

The recipients of these terms of reference are expected to produce elaborate proposals on how they intend to conduct the study with the following scope:

- i. Conduct market research in order to establish the need for wholesale funds as an important incentive for Banks and Financial Institutions to lend to smallholder farmers and other actors in the agricultural value chains.
- ii. To assess the gaps in current regulatory practice and treatment of smallholder farmers' loans by banks in respect of collateral requirements, calculation of loan loss provisions and regulatory capital requirements.
- iii. To determine standard practice, and best experience from other countries which have successfully financed smallholder farmers and recommend prudential regulations that will promote lending to smallholder farmers in Tanzania.
- iv. Based on the foregoing and in consultation with the Tanzania Bankers Association and leading banks, develop a Position Paper with specific proposals on lending to small holder farmers for revisions to existing regulatory guidelines for the consideration by the Central Bank of Tanzania;

- v. These proposals must include any prudential and other criteria in respect of the product (e.g. structure, guarantees and insurance) which the Central Bank should consider when evaluating the loans to smallholder farmers under the proposed product.
- vi. Draw experiences of other markets when developing the Wholesale Lending Product and Position Paper for reviewing the regulatory guidelines.
- vii. On basis of the study, design and propose to Banks and Financial Institutions a suitable product for lending to small holder farmers;
- viii. Develop a Wholesale Lending Product that will enable TADB to provide funds to Banks and Financial Institutions.
- ix. The Wholesale Lending Product will be a comprehensive document that will define the following at minimum: the eligibility criteria for Banks and Financial Institutions, competitive selection criteria to be used by TADB, terms of the wholesale funds, legal contacts between TADB and Banks and Financial Institutions, monitoring and evaluation framework and risk mitigating hedge to TADB for example guarantees and insurance cover.
- x. Conduct TADB's skill set assessment in order to establish its capacity to undertake wholesale lending; propose necessary technical capacity building that will facilitate TADB to successfully rollout wholesale lending product.

6. CONDUCT OF THE WORK

The consultant will report to FSDT, however, the consultant will work closely with TADB management, specifically Director of Credit and Business Development, Director of Treasury and Funding and Head of Risk and Compliance during all phases of the assignment.

Payments will be against deliverables as set out below. TADB will make arrangement for the consultant to meet the relevant stakeholders and take care of transport logistics. Office space will be provided to the consultant where necessary.

7. DELIVERABLES OF THE ASSIGNMENT

The deliverables of this assignment is a Wholesale Lending Product covering the scope of work and will include but not limited to:

- i. Wholesale Lending Product document for agricultural lending. The product document will contain the following information at minimum.
 - a. Eligibility criteria for Banks and Financial Institutions.
 - b. How Banks and Financial Institutions will be chosen on competitive basis;
 - c. Model for rating of strength and weaknesses of Banks and Financial Institutions.
 - d. Templates of reports which Commercial Banks will use for monthly and quarterly reporting to TADB.
 - e. Recommendation of models for facilitation of increased credit to women borrowers and women projects within the proposed product(s) e.g. Women-friendly financial products.

- f. Template of the loan application letter which Commercial Banks and Financial Institutions will use when requesting financing from the TADB.
 - g. Format of debentures from Commercial Banks and Financial Institutions to TADB.
 - h. A template Loan agreement to be used when on-lending funds from TADB to Bank or Financial Institutions.
 - i. Proposal for hedging instruments to be used by TADB e.g.: guarantees and insurance cover.
- ii. Position paper with specific proposals for revision to existing regulatory guidelines for consideration by the Tanzania Bankers Association and the Central Bank of Tanzania.

The key deliverables for the assignment are:

- a. An engagement proposal specifying the proposed methodology in conducting the assignment and envisaged outline of the final report. Upon acceptance of proposal, TADB will authorize payment of 25% of the agreed fee.
- b. After meetings with stakeholders and TADB, produce a draft report/presentation which incorporates the stakeholder comments and Consultant's inputs. Upon acceptance of a draft report, 35% of agreed fee will be authorized.
- c. Final comprehensive report conforming the scope of work above, responding to comments on the draft report provided by TADB and inputs offered by stakeholders.
- d. A brief summary report for wider dissemination to key stakeholders including TADB Board of Directors and Bank of Tanzania.
- e. Presentation of findings to key stakeholders. Upon acceptance of the final reports (a comprehensive report and summary report) by TADB and presentation of findings to key stakeholders, the final 40% of the agreed fee will be paid. TADB will not unreasonably withhold such acceptance.

8. TIMETABLE

The duration of this work is approximately 25 working days; the expected start date will depend on the date of signing the Contract.

9. PAYMENT SCHEDULES

Payments will be made upon acceptance on the quality and scope of deliverable:

The FSDT will make payments for this assignment as follows:

- 20% of the fees upon signing of the contract
- 50% of the fees upon submission of the draft report.
- 30% balance of fees on completion of the final version of the report incorporating the comments made, acceptable to FSDT.

The FSDT will be reimburse all agreed travel and other expenses upon submission of relevant receipts within ten days of approval of invoices submitted by the consultant.

10. PROFILE OF THE CONSULTANTS

Mandatory requirements

Significant professional experience in researching or working with smallholder farmers/ development and execution of wholesale lending product/ development of credit delivery products

Strong capacity in economic/financial sector research and consulting

Experience working in developing/emerging financial markets

11. PROPOSALS—SUBMISSION, FORMAT AND SCOPE

Consultant should submit a technical and financial proposals for undertaking this assignment. These may be submitted electronically. The deadline for **submissions is 16:30 hours East African Time on the 23rd of March 2017.**

11.1 TECHNICAL

The selection is based on the quality of technical proposal and the required budget in the financial proposal; thereby applying the Quality and Cost Based (QCBS) approach. The technical proposal should include all the technical parameters related to the study such as information acquisition, study framework and methodology, innovativeness, working schedule. Consultant is invited to comment on the ToRs and suggest amendments. Any corporate capabilities, reference projects and detailed CV should be appended. Reference projects should (where appropriate) detail the length of time since the consultant performed the duty, key tasks performed in an assignment, geographical location and contact person(s). The CV must be no more than five pages containing the relevant and required information only.

12. EVALUATION AND SELECTION

12.1 METHOD USED

Overall, the preferred bidder will be selected on the basis of presenting the most economically advantageous tender. This means that bidders will be evaluated on a combination of technical and financial criteria. In this case the ratio between technical and financial scores will be 70/30.

The technical component of each proposal will be scored first using a grid that assesses a number of key attributes. This is set out below.

Technical Proposals Scoring Grid

Criteria	Bidder	Max Marks
Experience of the nominated consultants in:		
• In-depth understanding of Quality and Cost Based (QCBS) approach		20
• Research Experienced in agriculture finance		20
Experience of the nominated consultants in:		
• Tanzania, policy, legal, regulatory, and frameworks		20
• Experience in East Africa		10
Understanding of and adherence to the ToRs, response to and comments on them, including any suggested amendments (with justifications)		10
Clear and concise methodology in approaching the assignment		20
Total marks		100

To be considered further, a minimum total technical score of 70/100 is required. Only financial proposals from bidders scoring at least that level will then be evaluated.

The total financial cost in US\$ will be weighted according to the formula:

- $(\text{Lowest total financial cost} / \text{Bidder's total financial cost}) \times 0.2$
- Total technical marks weighted by a factor of 0.8.

The weighted technical and financial scores for each proposal that passes the minimum technical threshold will then be added to produce a total score. The preferred bidder will be the one producing the highest total combined score.

All bidders will be informed of the combined weighted scores for all proposals that pass the minimum technical threshold. The FSDT will also separately inform the bidder of any proposal that fails to meet this threshold.

Any queries relating to this ToR should be submitted in writing to FSDT under the following address:

Nkundwe Mwakiluma,

Deloitte Consulting Limited,

nmwakiluma@deloitte.co.tz

These questions and the answers will be shared with all short listed candidates. The deadline for any queries is 2 days before the proposal submission deadline date.

13 FINANCIAL

This will be a fixed priced contract. Financial proposals should be quoted in US dollars set out in the following format:

Component	Units	Rate	Total (US\$)
Person-days of consultant (fee)			
Travel within Tanzania (air and ground)			
Hotel nights			
Daily subsistence for travel outside Dar es Salaam (includes food and drink)			
Communications and internet access			
Total Expenses			
Total Cost			

Daily rates for hotels and subsistence are fixed by FSDT policies. This rate will allow consultants to stay at the Serena Hotel (formerly Mövenpick), Double Tree or New Africa, for example. Consultants are free to stay in more expensive hotels, but the additional cost will be at their own expense. The FSDT's daily subsistence rates for Dar es Salaam and other parts of Tanzania are shown in Appendix A.

The actual time spent on field trips should be included in the person-days, but the location and therefore the final expense budget will be agreed with FSDT before the start of field work. Nonetheless, consultant is required to put in expenses based on the estimated time spent on field trips and the detailed unit costs shown on Appendix A.

Financial proposals should be denominated in US dollars. This consultancy will be subject to local taxes financial proposals will be evaluated on a basis net of any local taxes.

14 OTHER MATTERS

14.1 CONFIDENTIALITY

All information contained in the terms of reference and attachments is provided on a strictly confidential basis solely for the use of Tenderers in connection with a competition for the

supply of services for the above contract. It is a condition of this competition that Tenderers (and any sub-contractors) shall:

- take all reasonable measures to protect this confidentiality and avoid the unauthorized use, disclosure, publication, or dissemination of confidential information;
- not use this information other than for the purposes of preparation of a tender, and shall disclose it only to officers, directors, or employees on a specific need to know basis; and
- not disclose, publish or otherwise reveal any of the information contained herein except with the specific prior written authorization of FSDT.

14.2 CONFLICT OF INTEREST

Tenderers (and any sub-contractors) must disclose in their tender details of any circumstances, including personal, financial and business activities that will, or might, give rise to a conflict of interest, if they were awarded this contract. Where Tenderers identify any potential conflicts they should state how they intend to avoid such conflicts. FSDT reserves the right to reject any tender which, in its opinion, gives rise, or could potentially give rise to, a conflict of interest.

15 TAXATION MATTERS

The Consultants will be responsible to pay withholding tax and all other tax liabilities as per Tanzanian Tax laws. Any such tax amounts shall be the responsibility of the consultant.

APPENDIX A – FSDT ACCOMMODATION RATES FOR BED & BREAKFAST BASIS (in US\$) AND DAILY ALLOWANCES (IN TSh)

Group A Dar es Salaam Arusha Mtwara	US\$ 200.00
Group B Mwanza Zanzibar Mbeya	 170.00
Group C Tanga Dodoma Morogoro Iringa	 150.00
Group D Any other place not mentioned above	 130.00

DAILY ALLOWANCES (in TSh)

Groups	Lunch	Dinner	Incidental	TOTAL (TSh)
A&B	25,000.00	40,000.00	35,000.00	100,000.00
C&D	20,000.00	30,000.00	25,000.00	75,000.00