



TERMS OF REFERENCE

Recruitment of a Consultant to Conduct a Scoping Study on the Issuance of Municipal Bonds in Ethiopia

1. Introduction

These Terms of Reference (ToR) outline the requirements for a consultant to conduct a Scoping Study on the issuance of municipal bonds in Ethiopia. The Scoping Study will examine the policy and regulatory environment in Ethiopia and assess the capacity of Municipalities to issue these financial instruments. The Scoping Study will also examine the opportunities that exist to tap market-based financing. The Consultant will work closely with the Ethiopian Capital Market Authority (ECMA), regional governments and city administrations (hereafter referred to as 'Municipalities', project developers, and financial sector players. This work will also include some capacity building to be undertaken through stakeholder engagement sessions. These efforts aim to lay the foundation for the diversification of capital market products in Ethiopia to attract new investments.

2. Background

The Ethiopian Capital Market Authority (ECMA) in collaboration with the United Nations Development Programme (UNDP), Financial Sector Deepening Ethiopia (FSD Ethiopia), and Financial Sector Deepening Africa (FSD Africa), seeks to onboard a consultant. The Consultant will develop and publish a comprehensive Scoping Study on municipal bonds issuance and the potential for such instruments in Ethiopia.

2.1. About Ethiopian Capital Market Authority (ECMA)

The ECMA is an autonomous Federal Government Regulatory Authority established by Article 3(1) of the Capital Market Proclamation, accountable to the Prime Minister of the Federal Democratic Republic of Ethiopia. ECMA is tasked with regulating capital markets in Ethiopia and aims to create a conducive environment for the development of capital markets, including municipal financing instruments.

More about the Authority can be found on the ECMA website <https://ecma.gov.et/>

2.2. About United Nations Development Programme (UNDP) and Innovative Finance Lab (IFL)

The UNDP Ethiopia Country Office, works to enhance development activities in Ethiopia, including promoting sustainable development and financial inclusion. The Innovative Finance Lab, under UNDP Ethiopia's Inclusive Economic Transformation Unit (IET), focuses on innovative financial solutions to support the access to finance and sustainable growth of the SME and Startup sectors in Ethiopia.

More about IFL can be found on the IFL website <https://iflethiopia.com>

2.3. About FSD Ethiopia

FSD Ethiopia is a development agency that supports the development of accessible, inclusive, and sustainable financial markets for economic growth. It aims to address financial system failures by facilitating market actors to address constraints and build a functional financial sector that generates economic gains for all Ethiopians.

More about FSD Ethiopia can be found here: <https://fsdethiopia.org/>

2.4. About FSD Africa

FSD Africa is a specialist development agency working to reduce poverty by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for everyone. FSD Africa aims to support financial sector development by encouraging skills development, knowledge transfer, and the implementation of innovative financial products, including the issuance of municipal bonds. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

More information can be found on our website: <https://fsdafrica.org/>

3. Objectives and Scope

3.1. Objectives

The objective of the assignment is to assess the opportunities that exist to enable the issuance of municipal bonds in Ethiopia to source long-term capital to meet the financing needs of the real economy. The study will also examine the capital raising and absorption opportunities that exist as well as barriers that may hinder the flow of this capital through municipal bonds. Lastly, the study will contain actionable recommendations that detail the measures that need to be taken in Ethiopia to promote market-based capital raising by Municipalities/ Regional Governments through municipal bonds.

Scope of Work

The scope of the assignment will include:

A) A review of the enabling environment in Ethiopia -

- Conduct a comprehensive review of the policy and regulatory environment required to support market-based capital raising through municipal bonds in Ethiopia;
- Engage with the Ministry of Finance to understand their role and requirements in the issuance and regulations of municipal bonds;
- Identify the barriers and opportunities that may promote or hinder the flow of capital through municipal bonds;
- Review the institutional arrangements required for the issuance of municipal bonds including approval processes at municipal and national government levels;

- Identify what is required to create an enabling policy, regulatory and institutional framework for municipal bond issuances;
- Propose the regulatory requirements and processes that ECMA needs to adopt to facilitate issuance of municipal bonds efficiently.

B) An assessment of Municipalities’/Regional Governments’ capacity to issue municipal bonds

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- Assess the economic and fiscal performance of Municipalities, both historical and projected, clearly identifying their strengths, the challenges they face;
- Examine the capital raising and absorption opportunities that exist in Municipalities/Regional Governments i.e., their ability to take on (additional) debt including the consideration of potential revenue generation sources;
- Undertake an assessment of the Municipalities’ revenue models, i.e. examining the Municipalities’ own-source revenue, with an evaluation of the Municipalities’ that have the most stable cash flows;
- Estimate the Municipalities’ / Regional Governments’ relative likelihood of defaulting on their obligations from capital-raising initiatives i.e. perform a credit assessment;
- Evaluate Municipalities’/ Regional Governments’ skills and ability to manage green financial instruments and related projects available in the Municipalities;
- Evaluate revenue collection practices, governance, and reporting practices of the Municipalities

C) Pipeline assessment -

- Assessment of the project pipeline in the Municipalities/ Regional Governments with an analysis of the ongoing and projected green, social or brown-field projects that require financing;
- Identify the financing need in terms of quantum and funding horizon.

D) Financing models -

- Explore the financing mechanisms to be adopted based on the own-revenue analysis and project identification process. i.e., will the Municipalities/ Regional Governments issue project finance or issue based on the strength of their own credit?
- Identify and recommend other suitable instruments that would be used to mobilise long-term finance to finance municipal projects - including green, gender focused, Islamic or other sustainable finance solutions.

4. Deliverables

In line with the scope of work, the expected deliverables under this contract will include the following, organized in a sequence to facilitate milestone-based payments:

- i. Submission of an Inception Report containing an assessment of the present policy and regulatory environment in view of the changes to be recommended to facilitate municipal bond issuances in Ethiopia;
- ii. A Draft Scoping Study Report containing:

- a comprehensive review of the policy landscape and regulatory framework in Ethiopia,
 - a gap analysis and potential growth areas for the issuance of municipal bonds,
 - an assessment of Municipalities’ / Regional Governments’ capacity to issue and meet obligations from capital raising through municipal bonds,
 - an analysis of project profiles, funding needs, estimates and timelines, and
 - actionable recommendations of suitable financing solutions and their potential impact.
- iii. Conduct two stakeholder capacity-building workshops for regulators, potential issuers, and market intermediaries to enhance their understanding of the proposed financial instrument and to obtain their views and validation on the findings and recommendations of the draft report;
- iv. A Final Scoping Study Report incorporating comments from stakeholders.

5. Ways of working

The Consultant will be engaged by FSD Ethiopia and will report directly to the Financial Markets Pillar Lead. Additionally, a project steering committee, chaired by the Ethiopian Capital Market Authority (ECMA) and including representatives from FSD Ethiopia, FSD Africa, and UNDP, will provide oversight.

6. Timelines

The consultant is expected to execute tasks under each set of deliverables within the specified timelines. The project is expected to be completed in a period of four (4) months. Below is the updated timeline for each deliverable:

Deliverables	Timeline
Submission of an inception report	Within three (3) weeks of award of contract
Submission of a draft Scoping Study report	Within ten (10) weeks of award of contract
Stakeholder engagement workshops and submission of event reports	At least two (2) stakeholder sensitization workshops
Submission of Scoping Study final report	Within sixteen (16) weeks of award of contract

7. Invitation to Submit Proposal

Qualified consultants are invited to submit proposals for this assignment. The proposal should include:

- Names and CVs of key individuals (maximum three sides of A4 paper each).
- Outline of team structure.
- Summary of experience in the operation and regulation of capital markets in emerging markets, having provided advisory services on debt capital markets with a specific focus on municipal bonds
- Description of the consultant’s understanding of the role and how they intend to fulfil the services within the suggested timeline.

- References (and their contact details) who can provide testimony for the Consultant's experience, skills, and overall suitability for this assignment highlighting experience relevant to this RFP and dates of service.
- Estimated budget for both professional fees and reimbursable expenses.

Proposals should be submitted electronically to bids@fsdethiopia.org with the subject line "Developing Municipal Bonds in Ethiopia" by October 15, 2024.

Note: Technical and financial proposals should be submitted separately but simultaneously.

8. Basis of award

A contract will be awarded to the most economically advantageous tender based on the following criteria:

Mandatory requirements
The firm must demonstrate experience in the operation and regulation of capital markets in emerging markets, having provided advisory services on debt capital markets with a specific focus on municipal bonds. The team leader should therefore provide proof of having undertaken at least two similar assignments in at least two regulatory organizations within the last seven (7) years.
The firm must have good knowledge of Ethiopian capital markets and its political context and the capacity to engage intensively with this assignment with a view to concluding the work within the timetable prescribed.
Relevant qualifications in capital market/bond market development of team members with a specific focus on sub-national and municipal bonds
Experience in managing and executing complex projects

Assessment criteria	Weighting (%)
Relevant, demonstrated experience and capacity of firm and proposed team in this area	40%
Experience on similar assignments in Sub Saharan Africa	20%
Understanding/interpretation of the task set out in the TORs	10%
Content, quality, and originality of proposal	10%
Fee basis and total costs	20%
Total	100%

8. Contact

Questions or comments in respect of these terms of reference should be directed by email to bids@fsdethiopia.org on or before 12 noon 4th October 2024 and feedback will be provided by 5 pm (EAT) 9th October 2024.

9. Applicable Taxes

As per Ethiopia's tax law, FSD Ethiopia will pay the contractor after withholding the appropriate taxes at the applicable rate. It is the responsibility of the contractor to keep themselves apprised of these applicable taxes.