

TERMS OF REFERENCE

Recruitment of a Consultant to Conduct a Feasibility Study on Establishing e- Receivables/ discounting platform

1. Introduction

This Terms of Reference (ToR) outline the requirements for a consultant to conduct a feasibility study on establishing e-Receivables/ discounting platform in Ethiopia. The Ethiopian Securities Exchange (ESX) plans to expand its offerings beyond traditional equity and fixed income markets to better serve the needs of Small and Medium Enterprises (SMEs). As part of this strategic objective, ESX plans to introduce an electronic receivable discounting platform (FACTOREX) and explore the feasibility of integrating digital assets into its Alternative Market segment. Towards this end, the feasibility study will evaluate the viability and potential implementation of the FACTOREX platform.

2. Background

The Ethiopian Securities Exchange in collaboration with Financial Sector Deepening Ethiopia (FSD Ethiopia) seeks to onboard a consultant. The Consultant will develop and publish a comprehensive feasibility study on establishing an e-Receivable/ discounting platform in Ethiopia.

2.1. About the Ethiopian Securities Exchange (ESX)

The Ethiopian Securities Exchange (ESX) is established as share company by the Government of Ethiopia in partnership with the private sector, including foreign investors. ESX will be a key part of a broader ecosystem of institutions, markets, and participants that make up a functioning Ethiopian capital market ecosystem.

ESX functions as a Self-Regulatory Organization (“SRO”) and serves as the central market organizer providing an integrated product suite covering the equities, fixed income, and money market segments of the capital markets. As the pioneer securities exchange, ESX aims to play a critical role in the development and growth of the Ethiopian capital markets.

ESX’s core objective is to facilitate access to capital and support effective capital allocation in a manner that supports Ethiopia’s economic growth. By developing a well-regulated and efficient capital market ecosystem, ESX will enable mobilization of financial resources for both public and private sector while providing investors a reliable platform to invest in a reliable and efficient environment.

More about ESX is found on their website: www.esxethiopia.com

2.2. 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/>

3. Objectives and Scope

3.1. Objectives of the e-Receivables platform

The platform will enable SMEs to auction their trade receivables in a transparent, competitive environment, providing an alternative source of financing. Investors will gain access to a new financial instrument, benefiting from the low-risk nature of receivables discounting. The Platform will facilitate:

- Invoice Upload: SMEs will upload their invoices to the platform.
- Buyer Acceptance: Invoices will be sent to buyers for acceptance; accepted invoices become factoring units.
- Auction Process: Factoring units will be auctioned with bids from financiers.
- Bid Acceptance: SMEs or buyers will accept the final bid.
- Settlement: Funds will be transferred electronically to the seller's account, with repayments to financiers as per the terms

3.2. Objective of the feasibility study

The primary objective of this feasibility study is to evaluate the viability and potential implementation of the FACTOREX platform.

The study will assess the following key areas:

Scope of Work

The scope of the assignment will include:

1. Feasibility and Volume Assessment
 - Assess market size for receivables discounting in Ethiopia.
 - Evaluate existing financial infrastructure and identify gaps that FACTOREX could address.
 - Identify key market segments and potential transaction volumes.
 2. Regulatory and Legal Evaluation
 - Review current financial regulations, data protection laws, and anti-money laundering requirements.
 - Recommend necessary regulatory updates or new regulations to ensure platform compliance.
 3. Platform Design and Risk Management
 - Conduct a comprehensive analysis of current market trends, competitor platforms, and user needs to identify potential gaps and opportunities.
 - Identify Technological requirements, including infrastructure, software capabilities, and integration with existing systems to ensure compatibility and scalability
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- Outline potential risks associated with platform implementation, including operational, financial, and reputational risks, and proposed mitigation strategies.
4. Organizational Structure:
 - Design an organizational structure required to effectively manage and operate the FACTOREX platform.
 - Establish governance and oversight mechanisms and identify necessary human resources.
 5. Institutional and Market Support
 - Engage with key stakeholders, including financial institutions, industry associations, and government agencies.
 - Identify potential partners and develop strategies to secure their support.
 - Conduct market outreach to understand the needs of potential users and demonstrate the platform's value proposition.
 6. Study Tour
 - A 3-5-day study tour to a fully operational Trade Receivables Discounting System (TReDS) platform that provides working capital to MSMEs, fostering economic development.

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 legal and regulatory environment, serving as the foundation for understanding how the existing legal framework impacts the potential implementation and operation of the platform in Ethiopia;
- ii. A Draft Feasibility Study Report containing:
 - a comprehensive analysis detailing the market size for receivables discounting in Ethiopia,
 - a detailed analysis of current market trends, competitor platforms, and user needs to identify opportunities for FACTOREX
 - evaluation of the existing financial infrastructure and identifying specific gaps that FACTOREX can address,
 - identification of key market segments with potential transaction volumes, supported by data on target demographics and business needs,
 - documentation outlining technological requirements, including infrastructure needs and software capabilities for platform development
 - Identification of potential risks associated with platform implementation along with proposed mitigation strategies.
 - a proposed organizational structure necessary for managing and operating the FACTOREX platform effectively.
 - proposed governance and oversight mechanisms, including roles and responsibilities for human resources.
 - strategy for engaging key stakeholders such as financial institutions, industry associations, and government agencies.
 - And partnership development strategy

- iii. Conduct one validation workshop on the findings and recommendations of the draft report and one stakeholder capacity-building workshops for regulators, SMEs, and market intermediaries to enhance their understanding of the proposed platform.
- iv. A Final Feasibility 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 and the ESX team led by the CEO.

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 feasibility study report	Within ten (10) weeks of award of contract
Stakeholder engagement and capacity building workshops and submission of event reports	At least two (2) stakeholder sensitization workshops
Submission of the final feasibility study report	Within sixteen (16) weeks of award of contract

7. Invitation to Submit Proposal

Qualified consultants (securities exchanges) 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 implementing e-Receiveable/ discounting platforms
- 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 “Conducting Feasibility Study on Establishing e-Receiveables/ discounting platform” by 1st December 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 implementing e-Receiveable/ discounting platforms and/or the operational management and running of such platforms. The team leader should therefore provide proof of having undertaken at least two similar assignments in at least two markets 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/FACTOREX platforms of team members
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 emerging markets and SME finance	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%

9. Contact

Questions or comments in respect of these terms of reference should be directed by email to bids@fsdethiopia.org on or before 21st November 2024 and feedback will be provided by 25th November 2024.

10. 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.