



## TERMS OF REFERENCE FOR 3<sup>RD</sup> PARTY SERVICE PROVIDER FOR A PARTIAL GUARANTEE FUND IN SOMALIA JANUARY 2021

### 1. The Africa Enterprise Challenge Fund

The Africa Enterprise Challenge Fund (AECF) is a non-profit organization, with its headquarters in Nairobi supporting early and growth-stage businesses in the agribusiness and renewable energy sectors. Our aim is reducing poverty, promoting resilient communities, and creating jobs through private sector investment. AECFs' goal is to transform lives by providing funding and technical assistance to businesses that improve the lives of rural communities and display potential for credible commercial viability and growth.

AECF's strategy is focused on agribusiness/agriculture and renewable energy sectors with increased support to climate technologies, deepened focus on gender, youth, and employment, aimed at attaining the institution's vision of 'A Prosperous and Enterprising Rural Africa'.

Recently, The AECF was awarded a grant to implement the Finance for Inclusive Growth in Somalia (FIG – Somalia) funded by the European Union.

### 1. About Finance for Inclusive Growth in Somalia (FIG – Somalia)

Finance for Inclusive Growth in Somalia (FIG – Somalia) is a pilot programme component under the European Union's Inclusive Local and Economic Development (ILED) programme, whose objective is to contribute to stability in Somalia by extending state authority and services, promoting local reconciliation and peacebuilding, creating inclusive economic opportunities and protecting the most vulnerable.

#### Objectives of FIG Somalia

The specific objectives of FIG Somalia programme are:

- a) Facilitate access to finance for women and youth in business and producers<sup>1</sup> both at the financial institution level and enterprise level using the revolving loan fund and the partial guarantee facility with selected partner financial institutions.
- b) To enhance access to relevant business development services mainly through training and business mentorship

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<sup>1</sup> Refers to farmers, fishermen, pastoralists and auxiliary small businesses along the value chains, e.g. fish shop, transporter, processing activity e.t.c.



- c) Build the capacity of the partner financial institutions to increasingly provide appropriate financial services for a wider scope of customers include those living in rural and decentralized areas in Somalia.
- d) To design and offer appropriate and sustainable products and services to clients through Somali Financial Institutions and ensure targeted clients are growing and becoming more bankable.

To support partner institutions to expand their lending activities to target clients, FIG – Somalia has a Partial Guarantee Facility (PGF) with funds set aside to mitigate the risk of non-repayment for loans advanced by the financial institutions. The PGF is expected to be a client-based guarantee to the partner financial institutions and will cover the loans advanced to the target clients pre-defined in the loan agreement under this programme.

To avoid problems with “moral hazard” and opportunistic behaviour, the PGF will not cover the full value of loans but is capped at 15% of the total outstanding portfolio of the potential losses under the qualifying loans. With 50% of the loan capital being funds from EU under this programme, and the partners contributing 50%, the PGF provides a total guarantee of 30% for the loan advanced under this programme.

We are therefore seeking a Consultant to support the AECF in providing third-party verification for the Partial Guarantee Fund component of the programme.

## 2. About the Assignment

The consultant will be an expert with experience in financial guarantees, MSME banking, microfinance industry, training, organizational development and business development in East /Horn of Africa region.

### 2.1. Scope of Work

The scope will entail:

1. **Proposing functionality of the PGF component.** Based on the needs, propose, and design the functional modalities of the PGF based on the assumptions of loan size, maturity, additionality, graduation, leverage, risk-sharing as guided by the programme design.
2. **Identify institutional weaknesses and capacity building needs.** Are current operational capacity, organizational structure and staff capabilities adequate to support the guarantee scheme? What changes are needed (re-organization, policy focus, system development, staff training, etc.)? work with AECF Investment Advisory Services unit to propose how to capacitate the banks based on the institutional weakness and capacity building needs.



3. **Quarterly reports and 3<sup>rd</sup> party services** in reviewing eligible loans under the programme and providing an independent check and confirmation to trigger payment from the guarantee fund to the financial institutions by the 10<sup>th</sup> of the new month.
4. **Validate and verify all the documents from the partner financial institutions and their clients, and confirm/propose to AECF on the payment from the PGF under this programme.**

## **2.2. Specific Deliverables of the Assignment**

The deliverable to be provided are as follows:

1. Structure and model the functionality of the partial guarantee fund.
2. Provided details and recommendations on what the banks will be required to provide as part of the validation and verification exercise prior to payment from the partial guarantee fund.
3. Design reporting templates for the financial institutions
  - a) Format for (monthly/quarterly) bank reports to the 3<sup>rd</sup> party Guarantee provider
  - b) Format for reporting to AECF
4. Provide ongoing quarterly /monthly workouts to trigger payment from the Partial Guarantee Fund.

## **3. Duration of Service**

The assignment will be for an extended duration over the life of the programme.

## **4. Proposal submission**

Qualified consultants are invited to submit the proposal that includes the following:

- 1) Methodology and approach for conducting the assignment.
- 2) Reference list of similar assignments done in the past.
- 3) Relevant services undertaken in the past three (3) years.
- 4) Financial proposal showing clearly the budgeted cost for the work to be conducted under the scope of work above.

**Please note, technical and Financial proposals should be submitted as separate documents.**

## **5. Qualification and Experience**

- For this assignment, AECF is looking for a consultant specialized in the provision of pricing/ risk modelling services for debt and guarantee funds; financial institutions; banks and Microfinance institutions, with a particular affinity for emerging or fragile markets.
- The consultant is expected to have extensive experience in the modelling and managing guarantee schemes targeting banks and microfinance institutions.
- The consultancy is expected to have a strong understanding of investment risk and portfolio risk with respect to debt, and guarantee funds in Sub Saharan Africa.



- Experience in international good practices for guarantee funds and setting incentives for correct claim and settlement.

The consultant will be accountable to the **Head Investment Advisory Services**.

## 6. Pricing

AECF is obliged by the Kenyan tax authorities to withhold taxes on service contract fees as well as ensure VAT, at 16%, is charged where applicable. Applicants are advised to ensure that they have a clear understanding of their tax position with regards to provisions of Kenya tax legislation when developing their proposals.

## 7. Evaluation Criteria

An evaluation committee will be formed by the AECF and shall include employees. All members will be bound by the same standards of confidentiality. Bidders should ensure that they fully respond to all criteria in order to be comprehensively evaluated.

In deciding the final selection of qualified bidder, the technical quality of the proposal will be given a weighting of 70% based on the evaluation criteria below. Only the financial proposal of those bidders who qualify technically will be opened. The financial proposal will be allocated a weighting of 30% and the proposals will be ranked in terms of total points scored.

NO.	CRITERIA FOR ASSESSMENT	Weighted Award
<b>A. TECHNICAL PROPOSAL</b>		<b>70</b>
<b>1. An understanding of the terms of reference</b>		
1.1	Demonstrate understanding of the assignment and expected outcomes.	5
1.2	Demonstrate an in-depth understanding of modelling and managing guarantee schemes targeting banks and microfinance institutions.	10
<b>2. Methodology and work-plan that will deliver the best value on the assignment</b>		
2.1	Demonstrate the capacity to deliver the task in a timely and efficient manner. Demonstrate best and most practical approach to the assignment. Provide a workplan on the key deliverables.	15
<b>3. Qualification and Experience</b>		
3.1	Demonstrate capabilities and past relevant experience in tackling the assignment.	10
3.2	Demonstrate relevant experience in conducting similar engagements. Provide evidence of similar previous experience including reference list indicating the scope and magnitude of similar assignments; specification of reporting capabilities	30
<b>A. FINANCIAL PROPOSAL: Clarity, relevance, reality to market value/ value for money of cost for the assignment (inclusive of any applicable tax, reimbursables and travel).</b>		<b>30</b>
<b>Total Score</b>		<b>100</b>

## 8. Disclaimer



AECF reserves the right to determine the structure of the process, number of short-listed participants, the right to withdraw from the proposal process, the right to change this timetable at any time without notice and reserves the right to withdraw this tender at any time, without prior notice and without liability to compensate and/or reimburse any party.

#### **9. Application**

AECF invites qualified consultants to send a proposal to [aecfprocurement@aecfafrica.org](mailto:aecfprocurement@aecfafrica.org) clearly marked **“Terms of Reference for 3rd Party Service Provider For A Partial Guarantee Fund In Somalia”** to be received no later than **5<sup>th</sup> February 2021 by 5.00 pm East Africa Time (GMT +3)** addressed to **The AECF, Procurement Department**