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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA



TERMS OF REFERENCE

ETHIOPIA CREDIT MARKET DIAGNOSTIC

1. Introduction

In collaboration with the National Bank of Ethiopia (NBE), FSD Africa wishes to engage a firm (the “Consultant”) to conduct a Credit Market Diagnostic in Ethiopia. The Diagnostic is intended for use by the National Bank of Ethiopia for credit market monitoring, as well as to improve credit market development and risk management within the private sector.

FSD Africa will provide finance for this project. NBE will be the main beneficiary and will be involved in all aspects of the project.

2. Project Background

2.1 About the National Bank of Ethiopia and the proposed Credit Markets work

The National Bank of Ethiopia (NBE) has a legal mandate to maintain price and exchange rate stability, foster a healthy financial system, and support economic development in Ethiopia. Central to the NBE’s mandate is the collection and utilization of data for the purpose of bank supervision and credit market monitoring, including the assessment of early warning indicators of credit risk in the banking sector.

2.2. About FSD Africa

Established in 2012 and supported by UK aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across sub-Saharan Africa. FSD Africa works to reduce poverty through a ‘market systems development’ approach, by addressing the structural, underlying causes of poverty by improving how financial market systems function.

In July 2016, FSD Africa launched a Credit Market Development Programme which aims to support the development of credit markets across sub-Saharan Africa that are efficient, inclusive and maintain high standards of market conduct in order to expand quality access to credit for retail and SME consumers. The Credit Market Diagnostic in Ethiopia falls under this Programme. In addition, FSD Africa has been working with the NBE towards establishing a 5-year financial sector development programme in Ethiopia - FSD Ethiopia - which is expected to be launched in the first half of 2021.

3. Project and Scope

3.1. Objectives and scope of the Credit Market Diagnostic

The rationale for the assignment is to contribute to the development of effective credit markets and to improve access to finance in Ethiopia, by addressing gaps in the availability of disaggregated supply-side credit market data. The assignment aims to improve the collection and dissemination of regular and consistent credit market data across all credit suppliers and across all products, in order



to underpin effective credit market supervision and to encourage innovation to address gaps in access to finance. This will in turn contribute to economic growth and job creation.

The consultant(s) are required to develop data templates in consideration of both supervisory and access issues, and perform a Credit Market Diagnostic in Ethiopia, that will consist of the following activities:

- i. the review and adjustment of existing statistical templates in order to include disaggregated data that will support the NBE in monitoring of all aspects of the credit market, and in identifying gaps and weaknesses in the allocation of credit.
- ii. piloting the templates with selected bank and non-bank lenders (including credit reference bureau(s) and collateral registry).
- iii. collecting baseline credit market information from both NBE and selected bank and non-bank credit providers, and producing a Credit Market Diagnostic Report; and,
- iv. conducting a capacity needs assessment of the NBE and banking sector to assess their technical and organizational capacity to incorporate credit market statistics into decision-making.

The Credit Market Diagnostic must cover all credit providers (both bank and non-bank) and collect disaggregated statistics across all credit products, all categories of credit users and on the cost of credit. It will also collect credit reference bureau and collateral registry data. Further, it will include limited external benchmarks from relevant African and other emerging markets, and trend statistics that will enable the NBE as well as other policy makers and stakeholders in Ethiopia to identify strengths and weaknesses in the credit market, areas of development and areas of risk.

Statistics collected within the program must give comprehensive aggregate coverage of credit markets, in addition to providing detailed coverage of the following segments:

1. **Agricultural credit**, including an analysis of supply chain finance and trade credit.
2. **Micro, small and medium enterprise (MSME) credit**, including an analysis of cottage industries, supply chain finance and trade credit.
3. **Household credit**, with the product analysis giving particular attention mortgages, vehicle, personal, credit card and salary-backed loans.
4. **Cost of credit**.

For each of these credit market segments the analysis must document the current market structure and include statistics on at least the following: lending volumes (numbers and monetary amounts), profile of loans provided (in terms of loan sizes, loan repayment terms, interest and fees), geographical distribution, gender break-down, relationship between borrowers and lenders, consumer protection and disclosure, minimum criteria for access to different types of credit (including collateral requirements) and all factors that impact on the performance of credit. Coverage of the statistics must also include the collection and analysis of aggregate level data for SACCOs.

The assessment must include a review of the policy framework, effectiveness of existing credit market infrastructure, policy, regulatory or operational barriers in the credit market, and identify



interventions which can be expected to improve the functioning of the credit market segment in the short, medium and long term. The assessment must also cover the policy framework for digital lending, and provide benchmarking of best practice from regional peers.

4. Timings and Deliverables: Phases of the Credit Market Diagnostic

The Ethiopia Credit Market Diagnostic will comprise the following key phases:

Phase 1: Adjustment of Statistical templates &NBE Data Summary

- **Objectives:** (a) To review and adjust both the existing FSD Africa Statistical Data Template, Qualitative Questionnaire, Credit Reference Bureau Template and Collateral Registry Template in order to accommodate specific conditions and requirements of National Bank of Ethiopia and key stakeholders. (b) Develop a Credit Market Summary, based on existing data already collected by NBE.
- **Approach:** Individual meetings with NBE staff and representatives of key stakeholders (financial institutions, industry associations and government representatives). Workshop with key stakeholders to: (a) test outputs and agree on draft data templates; (b) present preliminary credit market overview.
- **Timeline:** March - May 2021
- **Tasks:**
 - a) Detailed plan of work and timelines, for discussion and approval by credit markets project steering Committee (SC) and technical committee (TC)
 - b) Review of draft templates and discussion with NBE and key stakeholders
 - c) Preliminary credit market statistics based on data already collected by NBE
 - d) Presentation of draft templates and preliminary credit market overview at workshop with Technical Committee and selected representatives from NBE and stakeholders
 - e) Implement changes and additions as agreed at workshop
 - f) Phase 1 Completion Report including: (a) Revised Statistical Data Template, Policy Questionnaire, Credit Reference Bureau Template and Collateral Registry Template; and (b) Summary Report of credit market data already collected by NBE, public institutions and industry associations.

Phase 2: Pilot Testing and Diagnostic Report

- **Objectives:** (a) Test the statistical templates with selected bank and non-bank lenders, credit reference bureaus, and the collateral registry. This will be the basis for regular data collection by NBE over the long term; (b) Collect baseline Diagnostic Information from the selected institutions and develop credit market estimates based thereon; (c) Complete questionnaires to identify key market constraints; (d) Produce Credit Market Diagnostic Report.
- **Approach:** (a) Test the statistical templates through both individual meetings and workshop with selected bank and non-bank lenders, credit reference bureaus and collateral registry; (b) Collect baseline Diagnostic Information from the selected institutions and develop credit market estimates by extrapolating collected data; (c) Complete questionnaires through



- workshop(s) and individual engagements with bank and non-bank lenders. Include key stakeholders e.g. Ministry of Finance; Credit Reference Bureau(s); Collateral Registry.
- **Output:** (a) A Diagnostic Report; (b) Statistical data collection templates that are ready for implementation by NBE.
 - **Timeline:** June - August 2021
 - **Tasks:**
 - a) Detailed Plan of Work and timelines for Phase 2, for discussion and approval by Steering Committee (SC) and Technical Committee (TC)
 - b) Pilot test the statistical data template through both individual meetings and workshop with selected bank and non-bank lenders and other institutions, credit reference bureaus and collateral registry)
 - c) Collect baseline Diagnostic Information through individual meetings and / or workshops with selected institutions and a review of institution-specific information (including management accounts and annual financial statements)
 - d) Develop credit market estimates by extrapolating collected data on an appropriate basis
 - e) Complete questionnaires through workshop(s) and/or individual engagements with bank and non-bank lenders and other key institutions (including at least Department of Finance; Department of Justice, selected debt collector or attorneys, Credit Reference Bureau(s); Collateral Registry)
 - f) Present findings from the Pilot testing to a stakeholder workshop and process comments
 - g) Produce a Diagnostic Report
 - h) Produce revised Data Collection Templates that are ready for implementation by NBE

Phase 3: Capacity Needs Assessment of NBE and Banking Sector:

- **Objectives:** (a) Assess the technical and organizational capacity of the NBE to incorporate credit market statistics into supervision and decision-making; (b) Assess the technical capacity of the banking sector to incorporate credit market statistics into decision-making and product development; (c) Produce a Capacity Needs Assessment Report as part of the Credit Market Diagnostic
- **Approach:** (a) Develop questionnaires to conduct needs assessment interviews; (b) Conduct in-person or telephone interviews with banking sector and NBE staff; (c) Analyse data collected from interviews (d) Hold technical workshops to validate needs assessment results.
- **Output:** Capacity Needs Assessment Report
- **Timeline:** March - May 2021
- **Tasks:**
 - a) Detailed Plan of Work and timelines for Capacity Needs Assessment, for discussion and approval by steering Committee (SC) and Technical Committee (TC)



- b) Development of questionnaires to conduct interviews with relevant NBE departments, and with a sample of banks
- c) Collect data from conducting relevant interviews with the NBE and banking sector
- d) Validation of findings in workshops after finalization of the interviews and analysis of collected data
- e) Produce a Capacity Needs Assessment Report

5. Invitation to Submit Proposals

All proposals **must** include the following information:

- A description of the Consultant's understanding of the objectives of the assignment and the role of the Consultant, including any observations on the terms of reference and recommendations for effective execution of the assignment.
- A description of the Consultant's proposed approach to the assignment, including a work plan, project management plan and timeframe.
- An identification of areas of the assignment that are particularly complex with an indication of the manner in which such complexities will be addressed.
- A short summary of firm level experience relevant to the assignment (no more than 2 sides A4);
- Names and CV(s) of key individual/s proposed, including a) short description of relevant qualifications; b) short description of relevant expertise and experience; c) statement of availability (as an annex, tailored to the assignment, maximum 4 sides A4 for all CVs);
- Clear details of proposed team structure, including roles and responsibilities of team member/s;
- A detailed budget (tax inclusive), including daily rates, number of days per team member and total fees, travel, accommodation and any other expenses (**Please note - FSD Africa is required to deduct withholding tax at source in accordance with Kenyan tax law at the country rate applicable**).
- Short-listed consultants will be required to participate in a presentation and discussion of their proposals with the project partners and Project Steering Committee. Due to COVID-19 health and travel restrictions, the modality of the presentation will be discussed with short-listed consultants, with any physical discussions occurring in Addis Ababa. The costs of any local or international travel related to participation will be borne by the Consultant.

Proposals should be sent by email to bids@fsdafrica.org under a subject line reading 'ETHIOPIA CREDIT MARKET DIAGNOSTIC'. Proposals must be received by FSD Africa no later than 1200 EAT on 25 February 2021 .

6. Basis of Award

FSD Africa, in partnership with NBE, will award a contract based on consideration of the following mandatory requirements. The Consultant must have the capacity to engage intensively with the assignment with a view to concluding the work within the proposed timeframe.



#	Mandatory requirements
1	The Consultant must demonstrate a deep knowledge and understanding of the financial market in Ethiopia in general and credit market in particular.
2	The Consultant should demonstrate good knowledge/experience in agricultural credit; MSME credit; household credit including payroll lending; cost of credit; and, credit regulation and policy.
3	The consulting team must include specialists that have extensive knowledge and experience of at least 10 years in credit and financial markets.
4	The consulting team must have experience in conducting similar credit market diagnostic studies; and/or demonstrate that they have strong analytical skills, particularly in supervisory and credit market development statistics, with at least 10 years of experience.
5	The consultants will be required to spend the bulk of the budgeted time in Ethiopia

With these mandatory requirements in mind, the proposals will be scored in accordance with the following criteria:

Assessment Criteria	Weighting (%)
Relevant, demonstrated knowledge, experience, and capacity of the firm and specified team members in African and Ethiopian financial and credit markets as per mandatory requirements 1, 2 and 3 above	10
Relevant, demonstrated experience and capacity of the firm and specified team members in similar analytical assignments as per mandatory requirement 3 above	30
Capacity and track record in service delivery in Ethiopia	20
Clarity, content and quality of the proposal, including understanding of the objectives of the assignment and proposed approach	10
Fee basis, value for money and total costs	20



Assessment Criteria	Weighting (%)
Evidence of consultant’s physical presence in Ethiopia	10
Total marks	100

7. Contact

Questions or comments in respect of these terms of reference should be directed by email to: bids@fsdafrica.org on or before 12 noon 15 February 2021 and feedback will be provided by 5 pm (EAT) 17 February 2021.

8. Applicable Taxes

As per Kenya’s tax law, FSD Africa will pay the Consultant after withholding the appropriate taxes at the applicable rate between Kenya and the Consultant’s country of tax residence, considering any tax treaties in force. It is the responsibility of the Consultant to keep themselves apprised of these applicable taxes. The below table however provides guidance on the applicable rates as per tax regimes

Country	WHT Rate
Kenya	5%
United Kingdom	12.5%
Canada	15%
Germany	15%
Zambia	15%
India	10%
Non-resident rate for citizens of EAC member countries	15%
All other countries	20%