



## **CALL FOR PROPOSALS FOR PARTNERSHIP TO MANAGE COSTECH CREDIT GUARANTEE SCHEME (CCGS)**

### **1. BACKGROUND INFORMATION**

#### **1.1. Purpose of the call**

COSTECH is requesting proposals for partnership in managing the COSTECH Credit Scheme (COSTECH CGS) with Financial Institution. The primary role of the Participating Financial Institution under this framework is to support the credit issuance of the COSTECH CGS to startups. Additional responsibilities include but are not limited to promotion, advisory service. The provision of credit under this framework is expected to start in December 2024.

#### **1.2. About COSTECH**

The Tanzania Commission for Science and Technology (COSTECH) was established by an Act of Parliament No. 7 of 1986. COSTECH is the principal advisory organ to the Government on all matters pertaining to Science, Technology and Innovation (STI), formulation of policies on development of Science, Technology and Innovations, coordination of research and dissemination of scientific information. COSTECH is also mandated to finance research and innovation in a way of grants or loan.

#### **1.3. COSTECH Functions**

The key functions of COSTECH include;

- i. Advising the Government on all matters relating to STI. Specifically, to advise in the formulation of policies relating to STI;
- ii. Coordination, monitoring and evaluation of scientific research and technological development;
- iii. Acquisition, storage and dissemination of scientific and technological information; examination and promotion of R&D Programme; mobilization and disbursement of funds for R&D;
- iv. Fostering regional and international cooperation; facilitation of the



- commercialization of research results; initiation, formulation and implementation of research priorities and programmes;
- v. Formulate national research agenda;
  - vi. Mobilization and allocation of research resources for national development.

## **2. Description of the COSTECH Credit Guarantee Scheme (CCGS)**

Part V of COSTECH Act, No.7 of 1986 established the National Fund for Advancement of Science and Technology (NFAST). NFAST main responsibility are soliciting of funds, and financing the advancement of science, technology and innovation (STI) undertakings in the country in a way of a loan or grants.

COSTECH provides seed funding for financing innovators and startups in the technology and products development from early stages to a creation of Minimum Viable Products (MVP) with market potential. The startups with MVP face difficulty in securing traditional loans due to high-risk profiles has not been able to secure. Therefore, there is a need to finance the commercialization of MVP that have not yet attracted conventional financing.

To address this, the Higher Education for Economic Transformation (HEET) project, is establishing a special window within NFAST to support the commercialization of research and innovation outputs. This window will operate as a revolving fund, offering credit to advance the commercialization of these research and innovation products. The COSTECH Credit Guarantee Scheme (COSTECH-CGS) is created to ensure a smooth lending process, enabling innovators and researchers to develop products that achieve market fit from their Minimum Viable Products (MVPs).

The COSTECH-CGS is a risk sharing guarantee designed to facilitate access to credit for innovative startup emanating from innovation or research, as these businesses often face challenges in securing financing due risk profiles, insufficient



collateral or credit history. This financial mechanism enhances credit access, shares lending risk among parties, promotes financial inclusion to emerging businesses emanating from research and innovation that are traditionally underserved by conventional banking system, and encourages financial institutions to extend credit to these startups/Spin-offs. The COSTECH-CGS will start with a maximum amount of TZS 2.3 billion.

## **2.1. The Objective of the scheme**

The scheme is primarily focus on enhancing credit access to emerging businesses (startups) emanating from research and innovation that are traditionally underserved by conventional banking system.

## **2.2. Eligible COSTECH-CGS Borrowers.**

The COSTECH-CGS beneficiaries will need to satisfy the following qualification criteria;

- (i) A locally registered business entity emanating from innovation or research activities, majority owned by Tanzanian citizens and with main office in the United Republic of Tanzania;
- (ii) Has a viable business dealing with production, processing, manufacturing, technology development or any other identified value addition business, provided that it has undergone a thorough COSTECH and Partner Financial Institution credit assessment and qualifies;
- (iii) The business has a potential of creating employment, generating tax revenue thus contributing to the country's economic growth;
- (iv) Has credible management and expertise in the type of business for which the guarantee is sought;
- (v) Has equity contribution to the relevant project or business that satisfies the requirements of the Partner Financial Institution; and



- (vi) Can offer any enforceable collateral including personal guarantee and third-party guarantee. The extent and nature of the collateral demanded would be determined by COSTECH and the Participating Financial Institution.
- (vii) Any other relevant criteria that will be agreed upon by the PFI and COSTECH

### **3. Procedures for credit guarantee applications**

The procedures for Credit Guarantee applications will be provided in the framework agreement entered between COSTECH and Participating Financial Institution(s)

### **4. Responsibilities of the Parties**

#### **4.1. Responsibilities of the PFI**

The following are the roles and responsibilities Participating Financial Institution (PFI);

- (i) A custodian of COSTECH guarantee fund and ensure proper use of the fund during the contractual period;
- (ii) Conduct lending business towards borrowers by using best practices, framework agreement and adhering to the Bank of Tanzania regulations;
- (iii) Establish measures to safeguard against fraud, corruption and abuse of the credit fund.
- (iv) Conduct rigorous monitoring of loan facility and provide detailed monthly and quarterly reports to the guarantor;
- (v) Conduct mentorship and provide technical assistance to beneficiaries in collaboration with COSTECH;
- (vi) Manage contracts/loan agreement and all statutory compliance requirements of the loan beneficiary; and
- (vii) Provide strategic advice on effective implementation of the programme to



achieve maximum impact.

- (viii) Nominate member of steering committee as provided in the Framework Agreement
- (ix) Provide quarterly report of the COSTECH CGS
- (x) Maintain proper records of credits under the partnership and prepare reports as per framework agreement.

#### **4.2. COSTECH Responsibilities**

In the COSTECH CGS, COSTECH will be responsible for:

- (i) Deposit COSTECH CGS Fund to a designated bank account in the PFI
- (ii) Nominate member of steering committee as provided in the Framework Agreement
- (iii) Approve claims received by PFI to write off bad debts or irrecoverable balances
- (iv) Conduct preliminary appraisal of potential borrowers

#### **4.3. Joint Responsibilities of both parties**

- (i) Both parties will be responsible to oversee the sustainability of the COSTECH CGS
- (ii) Both parties will adhere to the Framework of Agreement
- (iii) Both parties will be responsible for promotion of the COSTECH CGS to eligible borrowers
- (iv) Both parties will be responsible for promotion of the COSTECH CGS to strategic partnership for growth of the fund.
- (v) COSTECH and PFI shall work together in order to accomplish the purpose of the scheme
- (vi) The two parties will form a steering committee
- (vii) Both parties agree to work together on any other issues that will be agreed on the framework agreement



## **5. Selection criteria of the Participating Financial Institution**

The successful participating financial institution will be selected in accordance with the procedures set out in Appendix1: Guidance to Applicants.

## **6. Mode of application**

- (i) Interested financial institutions should submit their proposals by end of 1<sup>st</sup> October, 2024 at 23:59 HRS physically or through the email: [cgs@costech.or.tz](mailto:cgs@costech.or.tz)
- (ii) Late submission shall not be accepted for evaluation irrespective of the circumstances.

**Enclosed:**

**APPENDIX 1:** Guidance to Applicants

**APPENDIX 2:** Terms of Reference for the Secretariat



## **APPENDIX 1-Guidance to Applicants**

### **Application Process**

- a) Interested financial Institutions are invited to submit a maximum 10-pages (*excluding attachments*) describing the following details:
- (i) Brief profile of the PFI on credit guarantee scheme.
  - (ii) Current activities of the PFI and their relevance to the financing of startups or spin-offs companies.
  - (iii) Description of the PFI shareholdings, senior management and organization structure.
  - (iv) Description of ICT network and infrastructure and branch network in Tanzanian.
  - (v) Brief profile of the proposed PFI Team Leader in the partnership
  - (vi) PFI Track record in working with startups or spin-offs companies
  - (vii) Functional expertise dealing with innovative startups or spin-offs companies.
  - (viii) Approach towards managing lending process including interest rate, risk sharing guarantee
  - (ix) Reports or evidence on compliance with legal requirements in the Financial Institution Business
  - (x) Service charging fee structures for managing credit guarantee
  - (xi) Demonstrate how can meet the Terms of Reference in the most cost-effective manner.
- b) The submission may contain Appendixes that include PFI's 3 years audited financial reports and other relevant documentation.

### **Evaluation Criteria of the PFI**

- (i) Experience of the financial Institution in working with startups or spin-offs companies in credit guarantees schemes;
- (ii) Loan portfolio quality



- (iii) Capacity to manage credit risk including assessment of credit processes
- (iv) Compliance with the laws and regulations of United Republic of Tanzania.
- (v) Good track records and experience in financing of innovative start-ups/spin-off, technology and innovation programmes
- (vi) Local Financial institution registered in Tanzania by Bank of Tanzania with license to conduct lending business;
- (vii) At least one staff with knowledge on startups or spin-offs companies financing, entrepreneurship, and business management and delivery in Tanzania.
- (viii) Connected to national, regional and international stakeholders involved in innovation and entrepreneurship ecosystem
- (ix) Capable of mobilizing and starting activities by December, 2024.
- (x) Financial strength and stability: This includes factors such as a bank's capital adequacy ratio, liquidity, and asset quality;
- (xi) Geographical coverage (Bank branch network) and ICT based service delivery. This included branches in the regions and districts of Tanzania or robust ICT network and infrastructure for effectively and efficiently management of lending process throughout Tanzania;
- (xii) Must have Experience in managing Startups. This includes number of startups or spin-offs companies who accessed loans in the past five years
- (xiii) Ownership of the bank. The ownership should include Government shares
- (xiv) Profitability. This includes a bank return on equity, return on assets and net interest margin
- (xv) Customer services. This includes factor such as customer satisfaction, complaints resolution and overall customer experience

### **Selection of the PFI.**

The selection of the PFI will be done in two stages:

1. Evaluation of the submitted 10-pages proposal with relevant annexes
2. Following the review of the 10-pages proposal with relevant annexes,





COSTECH will invite selected DFIs to present their approach to the credit management under Guarantee Scheme at a place to be communicated. COSTECH will select the best DFI from this group of PFI

### **Cost of the Preparation and Submission of Proposals**

The interested Financial Institution shall bear all costs associated with the preparation and submission of their proposals and COSTECH will in no case be responsible or liable for those costs.

### **Amendment of the Call for proposal document**

At any time prior to the deadline for submission of proposal, COSTECH may, for any reason, whether at its own initiative or in response to a clarification requested by a prospective financial institution, amend the Request for proposal document. Amendment will modify or replace/supersede the earlier one.

Amendments will be provided in the form of Addendum to the Request for proposal document, which will be sent in writing or through e-mail to prospective Participating Financial Institutions (PFIs). The Addendum will be binding to all PFIs.

PFIs are required to immediately acknowledge receipt of any such Addendum. It will be assumed that the amendments contained in such Addendum has been taken into account by the PFI in its proposal submission.

In order to allow PFIs reasonable time in which to take the amendments into account in preparing their interests, COSTECH at its discretion, extend the deadline for the submission of proposal.

### **Language of the Interest**

The Interest prepared by PFIs, as well as all correspondence and documents relating to the Interest exchanged by PFI and COSTECH, shall be written in English.