

RESPONSES FROM QUESTIONS ASKED ON RFP No.52443 Mwanza Municipal Bond

Pursuant to Clause #18 (Instructions to Bidders) of the RFP for the above named project, we seek clarification on the following points:

- (1) What are the projects intended for implementation with the Bond's proceeds. What is the status of their readiness for implementation (eg feasibility studies, designs, costing, approvals, etc)?

Projects intended for implementation of the bond will be disclosed before engaging the transaction advisor. The LTA will be provided with a Project Information memorandum that includes all project details i.e. designs, costing, financial model, Council approvals etc.

- (2) Are any of the income generating infrastructure projects up and running?. If yes, have they maintained historical financial records and statements in respect of these projects?

Yes, some of the projects are existing and are managed by the City Council (not through SPV). The City is maintaining the financial records, but since they are not independently managed, they don't have separate financial statements.

- (3) If the incoming generating projects are future in nature, (i.e. still on the drawing board and planned to kick start once the funds are raised through the proposed issuance of the Bond), who will be responsible for the preparation of the detailed projected cash flows to be included in the Prospectus for the IPO purpose of the bond issuance?

For those projects that are greenfield, the City (with the assistance of a consultant) has prepared the projected cash flows. UNCDF is doing due diligence on the submitted project documents including the projected cash flows.

- (4) What is the current status of setting up the Special Purpose Vehicle (SPV)/ Project Company (e.g. Council approvals, Government permits, constitutive documents preparations)?

The government (Council and Ministry responsible for Local Governments) has approved the formulation of SPV. The legal consultant has been hired to advice on the governance structure, prepare incorporation documents and other relevant process to formulate an investment company.

- (5) Can you confirm whether the planned SPV will be/NOT be subject to the application of the Local Governments (Finance) Act, Cap 290 and Regulations thereunder?

The Local Governments Finance Act, Cap 290 is used to justify LGAs permission to invest, including forming SPV to manage commercial projects. Since the SPV is a company, then it will be formed and regulated by the Companies Act of 2002.

- (6) The Bond issuance is to be partly secured by UNCDF and USAID. Is this a full underwriting by the two parties or is there an element of residual risks borne by

Mwanza Municipality? What are the proportions in either bracket (secured and unsecured)?

The bond will be partly secured by UNCDF and partners. It is not a full underwriting by the two partners, the remaining part will be secured by the project itself and its assets managed by the SPV. The Mwanza City balance sheet will not be involved, but rather the SPV.

(7) Tanzania does not have a regulatory regime/legislation/policy to govern the issuance of municipal bonds specifically. Has this been considered or is the aim to ultimately issue a corporate bond through the SPV;

- Municipal bond is basically borrowing. The Local Government Finance Act allows LGAs to borrow such amounts from such sources, provided its approved by the Minister responsible for LG after consultation with the Minister responsible for Finance
- Municipal bond is a government initiative as indicated by Sec. 5.4.1.4 (ii) of the national Five-Year Development Plan II (2016-2021), which specified Local revenue development bond as one of the sources of finance for implementation of LGAs projects. In this part, LGAs have been encouraged to establish their own development corporations i.e. SPV.
- SPVs are companies and they are automatically governed by the Companies Act of 2002, and the issue will follow a mature and tested corporate bond process as per the requirements of the Capital Market Securities Act and Companies Act

(8) The RFP requires the submission of a credit enhancement plan. How would this be implemented given the nature of activities usually performed by municipalities in Tanzania? We have of course assumed that UNCDF would seek guidance from an LTA on some of these issues, but we are just wondering if there is some sort of identified roadmap on this aspect; and

There is no any identified road map regarding credit enhancement plan. We expect the LTA has experience on how Municipalities operate. Therefore, depending on the nature of the LGAs, their operations, the plan to issue a revenue bond through an SPV etc; the LTA should be able to advice how to enhance creditworthiness of the transaction to attract investors.

(9) We understand that there is a firm that has been appointed already to incorporate the SPV outside the scope of work provided under the current RFP. However, the RFP requires the LTA to attend to the incorporation of the SPV amongst other listed activities within the instructions.

Yes, there is an appointed legal firm that is responsible for incorporating the SPV and is expected to hand over a company fully registered as per the Companies Act of 2002. With regards to the RFP, the LTA is responsible to develop systems

(policies, processes, procedures, guidelines etc.) to guide the operations of the SPV to be established. Therefore, the LTA should professionally guide and prepare operational manuals and key technical documents to run the SPV.

(10) The RFP mentions that an SPV would be established to issue the Mwanza Municipal Bond:

a) Please share the report / additional information regarding the recommended SPV structure.

The SPV is not yet fully established at this point. The plan is to formulate a company with a governance structure that is independent from daily operations of the City Council and which adheres to the national plans.

According to Sec. 5.4.1.4 (ii) of the national Five-Year Development Plan II (2016-2021), that mentioned Local revenue development bond as one of the sources of finance for implementation of LGAs projects; LGAs have been encouraged to establish their own development corporations (SPV) to manage the projects. This section further elaborates as quoted; “..... *Management and governance of the corporations have to base on meritocracy and shielded from local political interferences*”.

b) Has the recommended SPV structure already been approved by the Mwanza City Council?

Mwanza City has approved the formulation of the SPV. The legal consultant has been hired to structure it and ensure its incorporation. The structure is not yet fully developed at this point; therefore, approval stage is yet to be reached.

c) Would the Lead Transaction Advisor be required to review and potentially modify the recommended SPV structure if need be?

As per the advertised RFP, this is not included as a requirement under the scope of work of the LTA. However, if need be, the LTA may advice a better structure to enhance the transaction.

(11) Would it be permissible for a consortium to arrange its membership by having a Lead Member who enters into subcontracting agreements with the remaining consortium members, with each consortium member to be covered by Professional Indemnity insurance in respect of it's the performance of the contract. This would be in lieu of a JV/consortium agreement?

The proposed arrangement is more of a subcontracting nature, and not a joint venture. Under a subcontracting arrangement, the Bidder must understand that it is primarily responsible to UNCDF and will remain liable to UNCDF for the entirety of the work, regardless of how its subcontractors perform. The bidder must also explicitly describe in its offer the nature of the work that will be subcontracted and to what subcontractor, possibly indicating the percentage of the work that will be subcontracted. If one of the Bidder's subcontractors has been determined to be

a sanctioned vendor to the UN, UNCDF may request the Bidder to replace the subcontractor, or reject its proposal on such grounds.

- (12) Our lead member was formed less than 3 years ago, and as such we only have 2 years' worth of financial statements, and the audit report on the most recent of these has not yet been issued. Will it be sufficient for a compliant response to submit the statements which are available even though there are not 3 years' worth of audited financial statements available?

The qualification requirement is indicated in the RFP (required experience is found on p28 and Financial Standing requirement on p36). While we do not discourage any bidder from submitting an offer, we would like to remind bidders of the mandatory requirement for determining the successful bidder.