# **TERMS OF REFERENCE (ToR)**

### **GENERAL INFORMATION**

 **Services/Work Description:** Recruitment of Fund Management Firm for the Enterprise Financing Facility

 **Project/Program Title:** Innovative and Inclusive Finance for Development

**Duty Station:**  Home based – with expected travel to Addis Ababa

**Type of the Contract:** National or International Firm

**Expected Start Date:** Immediately after Signing the Contract

**Duration of the Assignment:** 4-6 months

### **BACKGROUND**

Over the past two decades, Ethiopia has showcased consistent, rapid, and robust economic expansion, achieving an average growth rate of 10% which has contributed significantly to poverty reduction. Small and Medium Enterprises (SMEs) and Startup’s remain the key pillar of strength for the economy, with the potential to create more than 3 million jobs over a 5-year period.

However, the country’s SME and startup ecosystems remains behind that of neighboring countries and despite having the largest population in East Africa at 122 million, Ethiopia only attracted 16 investments at a total of $46M from 2019 to Q2 2022. The growth trajectory of the SME and startup sector faces numerous structural impediments. Among these, access to finance stands out as a predominant hurdle. Ethiopian SMEs and startups, particularly those led by women and youth, face greater credit constraints compared to other enterprises. A recent study posits that the SME finance gap in Ethiopia approximates USD 6.1 billion.

In alignment with the Home-Grown Economic Reform, the Ten-Years Perspective Plan, and the UN Sustainable Development Co-operation Framework (UNSDCF 2020-25), the Country Programme Document (CPD) for the UNDP Ethiopia (2020-25) delineates key areas of intervention for SME development and job creation in Ethiopia. These encompass:

* Policy, regulatory frameworks, and institutional architecture.
* Skill enhancement, training, and knowledge dissemination.
* Enterprise evolution and business development services.
* Innovative financial mechanisms to mitigate investment risks and offer tailored, affordable financing solutions in line with business needs.

The "Inclusive and Innovative Finance for Development" project, a pivotal initiative under UNDP Ethiopia, is dedicated to catalyzing economic advancement, job creation, and enhanced productivity through the expansion of financial inclusion and the fostering of innovation. This project is particularly focused on bridging the significant financial gap that impedes small and medium-sized enterprises (SMEs), with special attention to those spearheaded by women and youth—a demographic critical to achieving inclusive economic development and aligning with the Sustainable Development Goals (SDGs).

Central to this project's execution is the Innovative Finance Lab (IFL), the executing arm responsible for the project's programmatic components. The IFL is strategically positioned to bolster Ethiopia's economic growth trajectory by employing groundbreaking approaches. It is tasked with enhancing capacity building, ensuring financial inclusion through developing a sustainable financing platform and ecosystem, providing technical assistance, and piloting enabling financial mechanisms. These efforts are designed to nurture the growth and prosperity of SMEs and startups, fortifying them as cornerstones of sustainable economic progress. The IFL is composed of the following key entities:

* **The Technical Assistance Facility (TAF)**, which is committed to enhancing growth -oriented SME and startup capabilities, ensuring a robust pipeline of projects ready for investment through targeted capacity-building programs.
* **The Enterprise Financing Facility (EFF),** a mobilizing platform for innovative financial products and services designed to meet the varied needs of SMEs and startups across different stages of growth.
* **The Knowledge Sharing Unit (KSU),** dedicated to fostering a culture of knowledge exchange, policy advocacy, and research, thus paving the way for market-driven innovative finance solutions that support both SMEs and emerging startups.
* **The Regulatory Sandbox Unit (RSU),** a structured environment for rigorous testing of innovative financial products and services, which ensures regulatory compliance while encouraging market innovation. This unit is instrumental in setting industry standards and catalyzing financial innovation within the Ethiopian economy.

These components collectively represent the IFL's commitment to driving sustainable growth and economic resilience through strategic financial innovation, inclusivity, and enhanced access to finance for Ethiopia's dynamic business sector.

**Technical Assistance Facility (TAF)**

The Technical Assistance Facility (TAF) is a cornerstone initiative of the Innovative Finance Lab (IFL), specifically designed to elevate the operational and financial capabilities of Small and Medium Enterprises (SMEs) in Ethiopia. TAF's mission is to build a strong pipeline of investment-ready projects by enhancing the skills and capacities of these enterprises. This preparation is critical in ensuring that these businesses can effectively attract and manage investments.

TAF is structured to support businesses through two critical phases of their investment lifecycle:

1. **Pre-Investment Technical Assistance:**
	* **Objective:** Equip businesses with the tools needed to become "investment ready."
	* **Approach:** This program aids companies that lack previous investment or bank financing by helping them to develop a comprehensive data room, clarify their growth plans, and solidify their financial projections. Through partnerships with experienced vendors like MDF Global and R&D Group, TAF has already uplifted 100 companies across two cohorts by instilling confidence in their business models and value propositions. This year IFL will be running and managing the TAF program inhouse by onboarding experienced trainers and BDS providers and further strengthening the module and the program.
2. **Post-Investment Technical Assistance:**
	* **Objective:** Support companies in leveraging their initial investments for sustainable growth.
	* **Approach:** Focuses on businesses that have secured initial funding and need further assistance to scale operations. The assistance includes refining operational efficiencies, updating growth plans, and enhancing financial management practices. Companies will benefit from this phase, by receiving guidance on utilizing their funding effectively to achieve planned growth.
3. **TAF Plus (TAF +)**
	* **Objective** – Provide support to companies beyond technical assistance.
	* **Approach** – Focuses on business both in the pre and post investment space that require additional support to implement the best practices they have been thought in the training sessions and to execute the growth plans. A team of seasoned experts will be provided as a core resource that will strategically support the junior team at the companies i.e., the companies will be able to receive weekly strategic guidance from seasoned COO’s, CFO’s CMO’s Legal Counsels and the like. This approach will ensure companies get the best talent out there by sharing them amongst themselves and ensuring their internal team is upscaled and strategically guided.

**Connecting TAF and the Enterprise Financing Facility (EFF)**

TAF is the supporting arm of the Enterprise Financing Facility (EFF) crucial in minimizing the risks associated with investing in early-stage companies by providing sound propositions and screened pipeline as well as supporting the growth of the companies post investment with post investment TA and TAF plus which will substantially decrease the cost of investing in early-stage companies and SMEs. In addition, TAF will provide TA support to develop the capacity of new and existing fund managers further developing the pipeline for EFF’s FOF operation.

EFF also complements the efforts of TAF by mobilizing innovative financial products and services tailored to the diverse needs of growth-stage SMEs. EFF plays a pivotal role in unlocking additional capital from local and regional investors, thereby building a robust private capital market in Ethiopia. The synergy between TAF and EFF ensures a seamless transition for SMEs from capacity building to investment acquisition:

1. **Capacity Building through TAF:**
	* **Business Planning and Strategy:** TAF provides SMEs and startups with expert guidance on business planning and strategic decision-making, helping them align their operations with market expectations and investment standards.
	* **Financial Literacy and Projections:** SMEs and startups receive training on financial management, including creating detailed financial projections and understanding key financial ratios, which are crucial for convincing potential investors of their viability.
	* **Governance and Compliance:** By instilling robust governance practices and ensuring regulatory compliance, TAF prepares SMEs and startups to meet the rigorous standards expected by fund managers and investors.
2. **Investment Readiness Programs:**
	* **Data Room Preparation:** TAF assists companies in assembling a comprehensive data room, a critical element for due diligence processes that investors undertake before committing funds.
	* **Value Proposition Refinement:** Training programs help refine the value propositions of SMEs, ensuring they communicate their business strengths and market potential effectively to attract investment.

**Benefits to Fund Managers:**

Fund managers benefit from TAF’s rigorous preparation of SMEs and startups as it significantly mitigates the risk associated with investments. The thorough training and capacity building provided by TAF create a portfolio of enterprises that are not only investment-ready but also poised for sustainable growth and long-term profitability. To learn more about the program and to access the list of companies under the program, please visit [The TAF Section on the IFL Website.](https://iflethiopia.com/cohort/)

**Enterprise Financing Facility (EFF)**

As a crucial component of the Innovative Finance Lab, the Enterprise Financing Facility (EFF) is a USD 100 million investment facility with an initial lifetime of 15-20 years, subject to design specifications and applicable regulatory requirements. It is designed as a pooled financing mechanism, hosting diversified capital sources from the public sector, development partners, private sector (including individual investors), commercial banks, and other financial and non-financial institutions. The EFF aims to provide a range of alternative and innovative financial products and services to meet the diverse financing needs of growth-stage SMEs and startups while addressing the various risk profiles of investors contributing to the EFF.

The EFF is the first catalytic capital fund proposed by the IFL secretariat, with its design endorsed by the Advisory Board during its third meeting on November 30, 2023. This initiative is a pioneering effort in the startup and SME access to finance ecosystem in Ethiopia, aiming to invest in high-risk, high-reward opportunities presented by startups and SMEs. The Fund is expected to operate commercially and will be supported by a technical assistance facility that will develop specific metrics to identify, measure, and report the sustainability and development impact of the projects it invests in.

From 2024 to 2026, the EFF plans to attract approximately USD 100 million in capital from public sources, development finance institutions (DFIs), donors, and the private sector. Over time, the EFF is envisioned to become a flexible channel for attracting and leveraging finance for the development of startups and SMEs in Ethiopia.

The EFF aims to implement a comprehensive set of complementary measures to improve access to finance for startups and SMEs in Ethiopia, thereby fostering economic development by creating the necessary conditions for the establishment and growth of innovative and high-potential companies. This project also intends to stimulate the emergence of the private capital market in Ethiopia by developing the venture capital and private equity market, setting the foundations of a capital ecosystem, and disseminating best market practices.

To achieve these goals, the EFF is expected to:

* Provide early development and expansion stage financing to innovative startups by deploying targeted financial instruments.
* Provide development and expansion capital to established SMEs with high-growth potential in their respective markets.
* Offer initial or expansion capital to new and existing fund managers in its second phase of operation as a fund of funds.

**National Regulatory Sandbox**

In its effort towards promoting innovation and creating enabling regulatory environment in the financial sector in Ethiopia, UNDP in collaboration with the National Bank of Ethiopia (NBE) and the Ethiopian Capital Market Authority (ECMA) established the national regulatory sandbox in which the testing of financial innovations (products and services), payment systems, disruptive business models and delivery mechanisms can be facilitated under a set of conditions. The current development in the financial market in Ethiopia has necessitated the need for innovation that helps to create access to finance, foster financial inclusion and enhance efficiency of financial services and risk management.

The sandbox facilitates the piloting of innovative financial services and products by innovators (banks and non-bank financial service providers) to test their products or services as efficiently as possible in a cost-effective and timely manner. Furthermore, the sandbox will enable financial regulators to guide, assess and support innovators in the financial service ecosystem while at the same time providing the opportunity to identify appropriate legal and regulatory requirements.

The EFF, as the first fund structure/vehicle will also be admitted to the regulatory sandbox to ensure efficient implementation and provide regulators the insights on supportive measures towards facilitating financial innovation.

# **OBJECTIVES OF THE ASSIGNMENT**

The design of the Enterprise Financing Facility (EFF) has been approved, and the Innovative Finance Lab (IFL) is now seeking to onboard a skilled fund management firm.

The purpose of this Terms of Reference (TOR) is to select and approve a fund management firm that will establish the EFF as a legal entity and manage its initial setup. This specific assignment focuses on setting up the fund, including establishing the fund as a legal entity and obtaining the necessary regulatory authorizations for the fund. Future agreements between the onboarded fund management firm and other relevant parties will define the terms for capitalization, management, and operationalization of the fund.

The key objectives of this assignment are as follows:

**Fund Establishment and Setup**

1. **Establishment of the Legal Entity:**
	* Establish the EFF as a legal entity that aligns with the fund's strategic intentions and regulatory requirements.
	* Ensure the fund's legal framework supports its operational and investment goals.
2. **Obtaining a CIS Operator License:**
	* Secure a Collective Investment Scheme (CIS) Operator License, which is essential for undertaking regulated capital market service activities.
	* Adhere to the eligibility criteria and authorized activities as stipulated by the Ethiopian Capital Market Authority (ECMA).
3. **Registration of the Fund with ECMA:**
	* Complete the registration of the EFF with the ECMA, ensuring compliance with all regulatory directives and requirements.
	* Follow the necessary steps to register the fund, including appointing a licensed CIS operator and a licensed CIS custodian.
4. **KEY TASKS**

This assignment seeks to onboard a fund management firm to set-up and establish the Enterprise Financing Facility (EFF) and undertake all the necessary legal registration processes based on ECMA jurisdiction and applicable regulations and procedures.

More specifically, the fund management firm will lead the set-up, legal establishment, corporate governance, and negotiation of the terms of the Fund as a scheme under the jurisdiction of the Ethiopian Capital Market Authority (ECMA) and other competent financial and non-financial sector regulators.

Once appointed, the fund management firm shall ensure the Fund is set up as an independent entity/scheme that:

* Offers reliable and recognized protection to its investors.
* Is governed by its constitutive documents and relevant agreements between the fund manager, co-financing partners, and additional investors.

**Key Tasks:**

1. **Establish the Legal Entity**
	* + Develop and finalize the legal structure of the EFF.
		+ Undertake all the necessary steps to ensure that EFF, the entity is legally recognized and compliant with Ethiopian laws and regulations and that it has obtained the necessary documentation from the Ministry of Trade and Industry.
2. **Establish the Fund Governance Framework**
	* + Develop the governance framework for the prudent and effective management of EFF.
		+ Establish appropriate oversight mechanisms and the governing the investment policy, objective, and strategy.
3. **Obtain a CIS Operator License**
	* + Undertake all the necessary steps to obtain a CIS Operator License from the ECMA, including the commercial registration of CIS Operator.
		+ Submit an application for a CIS Operator License to ECMA, including necessary documentation and satisfying the competency and the “fit and proper“ criteria set out in the ECMA's licensing directives. .
4. **Preparation of the Fund's Activities:**
	* + Organize, prepare and document the framework for managing and operating the activities of EFF, including the developing the policies and procedures for such activities, .
		+ Key requirements include establishing appropriate risk management mechanisms for the fund, mechanisms to review the performance of the fund and frameworks for the preparing and providing timely investor disclosures.

The processes, procedures, and any other arrangements for the management and operation of the EFF shall align with international best practice and the regulatory requirements in Ethiopia.

1. **Fund Registration with ECMA**
	* + Undertake the process of Registering the EFF with ECMA before commencing operations or soliciting investors in the EFF.
	* The registration process requires preparation and submission of a comprehensive application to ECMA, detailing the fund's structure, governance, and compliance with regulatory requirements.

Engagement with ECMA throughout the application process will be required, addressing any queries, and providing additional documentation as necessary.

1. **Fund Setup Completion:**
	* Obtain formal approval and licensing from ECMA, ensuring the fund is authorized to operate as a CIS. Once approved, complete the legal establishment and registration of the fund with ECMA.
	* Appoint a licensed Securities Custodian to manage and safeguard the fund’s assets.
2. **Post-Assignment Engagement:**

Upon the successful completion of the setup and establishment of the fund, the capitalization, operationalization, and management of the EFF will be undertaken based on terms agreed upon with potential Limited Partners (LPs). These phases will be detailed in future agreements between the fund management firm and the LPs.

For more information on the subsequent phases, including capitalization, operationalization, and management of the fund, please refer to the FAQ section.

The onboarded fund management firm will be responsible for ensuring that the EFF is legally established, compliant with CIS regulations, and registered with ECMA. This foundational work will set the stage for the future phases of capitalization, management, and operationalization, which will be defined through subsequent agreements with LPs.

1. **SCOPE and DELIVERABLE of THIS ToR**

The scope of delivery expected from this ToR is successful completion of the setup/establishment of the fund. As such, applicants must submit their technical and financial proposals in response to this ToR only for the set-up of the fund.

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| --- | --- | --- | --- |
| No | Deliverable  | Payment[[1]](#footnote-2)  | Approval  |
| 1 | Kick-off meeting with team and submission of Inception Report  | 20% | UNDP IET Team Leader  |
| 2 | Submission of documents/evidence of fund establishment: Submission of Fund Establishment Documentation and CIS Operator License  | 60% |
| 3 | Final report and ECMA Fund Registration Approval  | 20% |

The purpose of this Terms of Reference (TOR) is to select and approve a fund management firm that will establish the EFF as a legal entity and manage its initial setup. This specific assignment focuses on setting up the fund, including establishing the fund as a legal entity and obtaining the necessary regulatory authorizations for the fund. Future agreements between the onboarded fund management firm and other relevant parties will define the terms for capitalization, management, and operationalization of the fund.

1. **REQUIRED EXPERIENCE, COMPETENCE AND QUALIFICATIONS**
	1. **Relevant Experience**
* **Fund Management Experience:** The applicant firm must demonstrate documented resources, competence, and experience spanning 5-7 years in fund management, particularly in developing countries or countries with similar characteristics.
* **Investment Management:** The applicant firm must show documented experience in executing and managing investments in startups and growth-stage SMEs. Experience in managing a fund of funds is an added advantage.

**7.2 Legal Certification**

* **Legal Compliance:** The applicant firm must have fulfilled all necessary legal obligations regarding registration, taxation, and other legal requirements in its home country.
* **Clean Legal Record:** The applicant firm and its representatives must not have been found guilty of any crime or liable for any civil acts of gross negligence or willful misconduct related to their professional activities.
* **Registration Documentation:** If registration is required, the applicant firm must include a copy of the registration certificate issued by the appropriate authority in their home country as part of their expression of interest.

**7.3 Financial Accounts**

* **Financial Stability:** Applicant firms must demonstrate stable financial standing.
* **Annual Accounts:** Applicant firms required to prepare annual accounts must provide copies of the most recent year's adopted annual accounts to show a stable financial basis.
* **Audit Reports:** Applicant firms must also attach audit reports for the three most recent years. If unavailable, audit reports for the two most recent years or the most recent year must be provided.
	1. **Qualification and Experience of Team Members**
1. **Team Leader**
* **Academic Qualification:**
	+ Minimum of a master’s degree or commensurate experience in Corporate Finance, Business Administration, Transaction Advisory, Investment Analysis, or related fields.
* **Experience:**
	+ 10-15 years of relevant experience in investment fund structuring, fund management, fundraising, with strong communication and presentation skills. Demonstrable experience in early-stage venture capital and startup ecosystems in Africa.
* **Competencies:**
	+ Excellent research and advocacy skills in the relevant area.
	+ Strong organizational skills.
	+ Proficiency in English.
1. **Team Members (One to Two experts)**
* **Academic Qualification:**
	+ Minimum of a bachelor’s degree in Corporate Finance, Business Analysis, Transaction Advisory, Investment Analysis, Investment Law, Tax, or related fields.
* **Experience:**
	+ 5-7 years of professional experience in fund structuring, fund management, fundraising, with strong communication and presentation skills.
* **Competencies:**
	+ Ability to work under pressure and deliver timely results without compromising quality.
	+ Strong communication and interpersonal skills.
	+ Proficiency in English.
1. **INSTITUTIONAL ARRANGEMENT / REPORTING RELATIONSHIPS**

The selected service provider will work with stakeholders such as financial sector regulators, financial institutions and more specifically, the IFL Secretariat will directly supervise the work of the Service Provider, and to whom the Service Provider will be directly responsible to, reporting to, seeking approval from, and obtaining certificate of acceptance of output from UNDP responsible unit.

1. **THE ROLE OF UNDP (THE IFL)**

The primary role of the UNDP (The IFL) is to provide the fund with a robust pipeline of investment projects ranging from startups to SMEs and to conduct initial due diligence of these investments through its technical assistance facility.

The final decision to invest will rest solely with the fund manager, supported by the investment committee, based on agreed investment guidelines.

In supporting the objectives of the Fund, the UNDP (IFL) will:

* Act in an advisory capacity to the Fund Manager.
* Serve as an observer on the Investment Committee without voting rights or involvement in fund management decisions.
* Manage the technical assistance (TA) facility directly and raise additional grant resources for this purpose. The interaction between the TA facility and the Fund will be detailed once the fund manager is in place.

Additionally, the UNDP will:

1. Cover the costs associated with setting up the Fund, directly payable to the selected fund manager.
2. Refrain from any active role in the Fund's operations or assume any financial and non-financial commitments or risks once the Fund is established.
3. Limit its role to providing the initial financing necessary to establish the Fund as a legal entity.
4. **LOCATION AND DURATION**

The assignment's overall duration is for an estimated period of four to six months, conducted as a home-based assignment with expected travel to Addis Ababa. All travel and logistics costs are to be covered by the service provider. Therefore, the financial proposal should be presented as a lump sum, inclusive of all travel, logistics, and other associated costs.

1. **CRITERIA FOR SELECTING THE BEST OFFER**

Upon the advertisement of the Procurement Notice, the qualified fund management Firm is expected to submit both the Technical and Financial Proposals. Accordingly, the firm will be evaluated based on Cumulative Analysis as per the following conditions:

* Responsive/compliant/acceptable as per the Instruction to Bidders (ITB) of the Standard Bid Document (SBD), and
* Having received the highest score out of a pre-determined set of weighted technical and financial criteria specific to the solicitation. In this regard, the respective weight of the proposals are:
1. Technical Criteria weight is 70%
2. Financial Criteria weight is 30%
3. **PROPOSED STANDARD TECHNICAL PROPOSAL EVALUATION CRITERIA**

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| --- | --- | --- |
| **Summary of Technical Proposal Evaluation**  | **Score Weight** | **Points Obtainable**  |
| **1** | Expertise of Firm / Organization | 35% | 350 |
| **2** | Proposed Methodology, Approach and Implementation Plan | 40% | 400 |
| **3** | Management Structure and Key Personnel | 25% | 250 |
|  | **T O T A L**  | **100%** | **1000** |
| **Expertise of the Firm/Organization** | **Points Obtainable** |
| **1.1** | Reputation of Organization and Staff / Credibility / Reliability / Industry Standing  | **50** |
| **1.2** | General Organizational Capability which is likely to affect implementation | **90** |
|  - Financial Stability |
|  - Loose consortium, Holding company or One firm |
|  - Age/size of the firm |
|  - Strength of the Project Management Support |
|  - Project Financing Capacity |
|  - Project Management Control |
| **1.3** | Extent to which any work would be subcontracted (subcontracting carries additional risks which may affect project implementation, but properly done it offers a chance to access specialized skills.) | **15** |
| **1.4** | Quality assurance procedure, warranty | **25** |
| **1.5**     | Relevance of: | **170** |
|  - Specialized Knowledge |
|  - Experience on Similar Programme / Projects |
|  - Experience on Projects in the Region |
|  - Work for UNDP/ major multilateral/ or bilateral programmes |
|   | **S U B T O T A L** | **350** |
| **Proposed Methodology, Approach and Implementation Plan** |   |
| **2.1** | To what degree does the Proposer understand the task? | **30** |
| **2.2** | Have the important aspects of the task been addressed in sufficient detail? | **25** |
| **2.3** | Are the different components of the project adequately weighted relative to one another? | **20** |
| **2.4** | Is the proposal based on a survey of the project environment and was this data input properly used in the preparation of the proposal?  | **55** |
| **2.5** | Is the conceptual framework adopted appropriate for the task? | **65** |
| **2.6** | Is the scope of task well defined and does it correspond to the TOR? | **120** |
| **2.7** | Is the presentation clear and is the sequence of activities and the planning logical, realistic and promise efficient implementation to the project? | **85** |
|   | **S U B T O T A L** | **400** |
| Management Structure and Key Personnel  |   |
| **3.1** | **Team Leader**General QualificationSuitability for the project  |
| International Experience  | 40 |
| Professional experience in the area of specialization | 60 |
| Knowledge of region | 40 |
| Language qualification | 30 |
|   | **S U B T O T A L** | **170** |
| **3.2** | **Team Members** General QualificationSuitability for the project |  |
| International Experience  | **10** |
| Professional experience in the area of specialization | **30** |
| Knowledge of region | **20** |
| Language qualification | **20** |
|   | **S U B T O T A L** | **80** |
|  | **Aggregate**  | **1000** |

1. **ADMINISTRATIVE ISSUES**

Questions and Answers Regarding the Contract Documents During the selection process, the contracting party (UNDP) is not permitted to discuss documentation, proposals, evaluation, or other such matters with potential applicants in a manner which favors or disfavors any of the partners. Questions regarding the attached documents must be directed to UNDP ‘s procurement Unit at info.procurementet@undp.org . A compilation of relevant questions and answers will be published on UNDP’s website. Each potential applicant must ensure that it reads the answers to the questions, together with any other information, which may be published on the above-mentioned website during the tender period.

1. **CONFIDENTIALITY AND PROPRIETARY INTEREST**

The applicant shall not either during the term or after termination of the assignment, disclose any proprietary or confidential information related to the service without prior written consent. Proprietary interests on all materials and documents prepared by the firm under the assignment shall become and remain properties of UNDP.

***Annexes***

* + 1. *Proposed Methodology, Approach, and Implementation Plan*
		2. *Summary of the EFF Expected Fund Parameters*

**Annex 1: Proposed Methodology, Approach and Implementation Plan**

In support of the technical proposal and evaluation process (section 11 ) we strongly suggest interested firms to address the following key areas, in their technical proposals:

* Performance and Geographical Coverage:Describe the company and provide a record of the financial performance over the last three years, number and categories of staff, and geographical location of company representatives. Please describe the ownership and governance structure of the company.
* Related experience**:** explain if the company has any experience in investing on start-ups and SMEs in Africa, raising and managing similar size funds and managing a fund of fund.
* Investment Process**:** Describe the due diligence process you use to assess, execute, and monitor potential investments.
* Financial Instruments**:** Describe the company’s experience in deployment of different financial instruments.
* Fundraising: Describe the fundraising strategy, approach, timelines, milestones, and the extent to which targets were met on past or existing funds. Please additionally describe any challenges faced in the past, challenges overcome, and other relevant information related to fundraising activities.

*We want to encourage applicants to be creative in finding a structure that will attract donor funds and return seeking capital and reflect these in their technical proposal.*

* Attracting Capital Providers: How would you market the Fund to be successful? Through what channels? To whom?
* Investment Guidelines: Given what you know about the investment opportunities generated by UNDP, how would you design the investment guidelines for the fund?
* Governance Structure: Describe the governance structure you would propose for the fund.
* Risk framework: what risk do you anticipate and explain the risk framework while setting up the fund and later during execution?
* Fund Management: How would you see the fund management implemented? Particularly, how would you see the Fund Manager interact with UNDP from an origination, execution and portfolio management point of view? In case the quality of the UNDP pipeline is not sufficient for the return profile proposed, how would you propose to mitigate such a scenario?
* What is your competitive advantage? And based on the parameters of the fund please indicate how the financial model (cash flows and returns), management fees, portfolio structuring and forecasting for the fund could look like?
* Follow-up on Social Metrics: How would you generate the social metrics, what methodologies would you employ, how would it be documented and how would it be reported back to the funders (and the supported businesses)?

**Annex 2: Summary of EFF Expected Parameters**

Summary of EFF expected parameters.

The EFF fund was designed after a market assessment and stakeholders’ consultation that demonstrated **structuring the long-term EFF as a Fund-of-Funds** would lever significant and sustainable effects on a national scale, enabling the EFF to deploy the right mix of capital, diversify risk and act as a catalyst for Ethiopia’s investment and entrepreneurial ecosystem. Such approaches work when the stakeholders are able to demonstrate that they are already very active.

This is why the EFF has been designed following **a phased and dual approach.** It includes a **short-term strategy with direct investment** (direct investments into SMEs and start-ups) and a **long-term strategy with indirect investment** (operationalisation and deployment of the fund of funds). These two strategies are designed to be **implemented simultaneously** starting January 2024. They are **complementary and interrelated**.

|  |  |
| --- | --- |
| **Fund Manager/General Partner** | *To be recruited - An independent private fund manager sourced via a competitive process*  |
| **Legal Form and domiciliation**  | * **Domiciliation in Ethiopia** is required by the IFL Advisory Board. EFF registration will soon be possible under ECMA directives.
 |
| **Fund life**  | * Closed*-End and self-liquidating, 15–20-year tenor from first closing allowing for automatic liquidity while providing patient capital*
 |
| **Target Fund size** | * $100 million
 |
| **Investment targets** | * Phase 1 - Initial direct investments (up to 30% of the capital)
	+ **Growth oriented and scalable** **SMEs** operating in Ethiopia in various sectors, with a minimum demonstrated track record.
	+ Potentially **disruptive** **startups** with a minimum viable product
	+ Potential pool of SMEs and Startups developed by IFL Technical Assistance Facility (not exclusive)
* Phase 2 – Operated as a FOF (up to 70% of the capital)
	+ **Investment in**
		- Locally registered and locally based management teams.
		- Locally based management teams whose investment vehicle is registered abroad.
		- Regional players registered abroad but recognized and authorized to operate in Ethiopia.
	+ **Investment funds deploying a variety of investment strategies**, with investment ticket sizes ranging from $ 50,000 to 15m; including pre-seed, seed, Series A and venture capital.
	+ **Option to allow direct SME investments**, in co-investment with the funds
 |
| **Investment size** | * For direct investments in SMEs and Startups - $50 - $200K per company
* For investments through the FOF operation - Investments of USD 1m to 10m in each fund, with a maximum control of 40% of any single fund
 |
| **Tools**  | **For direct investments** * + For businesses generating immediate revenues (mainly SMEs): Equity (currently available but not always optimal)
	+ For businesses with a strong need of patient capital (mainly startups): SAFE & Convertibles notes (implementation in progress under ECMA Directives); Equity

**For the FOF** * + **Equity** (only tool currently available on the market), including **junior & first-loss tranches** where de-risking investors is a key success factor
 |
| **Investment period**  | 5 to 6 years for the FoF to invest in other funds and same for direct investments, followed by an exit period (ideally with a minimum of 12 years in total, 15 years or evergreen being the optimum) |
| **Exit strategy**  | Self-liquidating, capital is returned to the fund when the invested funds and companies exit from their own investments (from 5 years after the first investment). |
| **Sectors**  | * Sector agnostic – if companies are scalable SMEs (growth oriented) and disruptive startups.
* Investment Funds operating in priority sectors: agri, manufacturing & services, align with the strategic pillars of Ethiopia’s 10-year Plan and the Homegrown Economic Reform Agenda
 |
| **Target # of Investments** | * For direct investments
	+ 50 -100 companies financed over 5 years.
* For FOF operation
	+ 4-6 fund investments (pilot) to 10-12 fund investments (full scale)
	+ Leading to 30-150 SMEs financed over 10 years
 |
| **Capitalization**  | * **EFF vehicle:** *Anchor investor + additional contributors to be identified by the fund manager*
	+ Potential platform for donor, DFI and public (government sovereign fund, pension, and insurance funds) can potentially deploy funding based on various risk return profiles.
* Fund manager with the support from IFL will perform **fundraising and capitalization** of the fund and all market-based expenses of the **fundraising expenses** will be reimbursed by the fund to the fund manager
 |
| **Technical Assistance**  | * IFL will provide through a contractual agreement with the fund:
	+ the investment readiness technical assistance support to develop pipeline,
	+ provide portfolio management support as a post investment technical assistance and
	+ provide technical assistance for new and existing fund managers pipeline of the FOF.
* IFL’s technical assistance and risk observation support will be donor funded
 |
| **Management fee**  | * The fund will provide a market-based management fee payment to the fund manager based on the competitive offer of the fund manager
 |
| **Carried interest**  | * The fund will provide a performance based carried interest where the percentage and hurdle rate are to be determined based on the competitive offer of the fund manager
 |
| **Governance**  | * The fund will be governed by a board for strategic direction and technical decisions will be made by an investment committee
 |

1. *The consultant is expected to quote a lumpsum in USD which shall be paid in regular installments upon successful completion of tasks and deliverables as indicated in this RFP. Final payment shall require a signed performance evaluation of the consultants* [↑](#footnote-ref-2)