

## TERMS OF REFERENCE

### FRAGILE STATES IMPACT VENTURE CAPITAL DEVELOPMENT

#### 1. Introduction

The difficult business environment and increased risk profile in fragile communities and states (FCAS) means that traditional lenders (primarily financial institutions) are more hesitant to lend or provide financial services in these markets.

Financing, in fact, is rarely a ready source of funds for start-up ventures in FCAS. Financial institutions weigh the historical profit-and-loss performance of would-be borrowers, yet the entrepreneurs who are behind the small sub-set of firms that are destined to create jobs quickly have little or no financial track record.

Start-ups are thus often viewed warily by risk averse bankers. FSD Africa believes ensuring that there is a continuum of financial institutions and services in fragile communities and states, such as early-stage financing, private equity, venture capital and angel financing can provide critically important financing that can lead to (M)SME growth and job creation, especially in FCAS.

As a result, FSDA's Fragile Communities and States (FCAS) team seeks to contract a Consultant ("the Consultant") to develop programme frameworks that focus on the increasing capital to fragile communities and states, with a focus on women and youth.

It is anticipated that the consultancy will commence on or around May 15<sup>th</sup>, 2020 and be completed no later than September 30<sup>th</sup>, 2020.

#### 2. Project Background

##### 2.1. About FSD Africa

FSD Africa is a specialist development agency working to reduce poverty by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

We work to reduce poverty by strengthening Africa's financial markets.

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. We work to reduce poverty through a 'market systems development' approach, which means we aim to address the structural, underlying causes of poverty by improving how financial market systems function.

We believe that investing in building a financial system that is transparent, stable and accessible creates the conditions for a fair and sustainable future, where inequality is reduced, corruption is tackled, and

where individuals, businesses and governments alike are able to prepare for future challenges, from climate change to political instability.

From our headquarters in Nairobi, our team of financial sector experts work alongside governments, business leaders, regulators and policy makers to design and build ambitious programmes that make financial markets work better for everyone. Depending on the project, we can provide a combination of grants, investment capital, market insights or technical assistance to ensure we achieve our objectives.

We focus our work where the need is greatest, and where we believe the potential for impact is the most significant.

Please find more details about FSD Africa on our website at [www.fsdafrica.org](http://www.fsdafrica.org).

## **2.2. About FSD Africa's Fragile Communities and States (FCAS) Unit**

Since 2017, FSD Africa has been working on a fragile states regional programme of work. Until now, the programme has focused on DRC, Sierra Leone and Zimbabwe at the country level with a thematic focus on refugees. This work has been driven by in-country resources, technical experts with support from Nairobi, where FSD Africa's head office is located. The articulation of what fragility means in the development context is varied with no standard qualitative or quantitative definition in existence. FSD Africa's strategic 2020-2025 fragility focus has evolved beyond fragile and conflict-affected states and is now anchored on the 'leave no one behind' agenda.

Leaving no one behind requires ensuring that this agenda becomes the rule rather than the exception. Achieving this requires the transformation of deeply rooted systems, economic and political systems, governance structures and business models at all levels, from local to regional and global. Additionally, extreme inequality persists in multiple dimensions within and between fragile countries. It often translates into an inequality in decision-making. Segments of the population that are typically excluded from meaningful participation in decision-making are those already left behind in material well-being, financial services, education, health and other factors, those that are geographically isolated.

Within FSD Africa's new delivery mechanism, the Fragile Communities and States (FCAS) unit seeks to support the leaving no one behind' agenda, through dedicated resources that develop:

- i. thematic initiatives that have the potential to positively impact marginalised populations, including the urban poor, nomadic pastoralists, slum dwellers and the highly vulnerable;
- ii. refugee/IDP and community-focused programmes to improve financial inclusion to services currently unavailable to them; and
- iii. advocacy to motivate fragility stakeholders to support activities that focus on the leave no one behind agenda.

The pivot from a 'fragile states' regional focus to 'fragile communities and states' thematic focus will enable FSD Africa to effectively impact the marginalised who are often excluded from the benefits of mainstream development initiatives.

### **2.3. About FSD Africa III (2020-25) and FSD 2.0**

FSD Africa III (2020-25) is the organisation's third strategic plan. The UK government's Department for International Development (DFID) approved a new funding package to support its delivery in December 2019. FSD2.0 is the name given to the new guiding vision adopted by the Financial Sector Deepening (FSD) Network in 2019. The name suggests, first, that the Network remains focused on its work in the financial sector; but secondly, that its focus has evolved from that in its first era ("FSD1.0"). Under FSD2.0, the FSD Network builds on the experience and evidence of the first era which points to the need to broaden the scope beyond financial inclusion while simultaneously focusing on how finance can contribute to unlocking developmental aims.

Both FSD Africa III and FSD 2.0 recognise that financial sector development in Africa faces new challenges, and that a fresh approach is required if we're to lock in and accelerate the gains of the previous cycle. This fresh approach has three main pivots: geographic, operational and developmental.

#### *A new geography*

The FSD Network has a strong programming footprint of over 200 staff in 8 country offices. And despite FSD Africa's regional reach into a total of 28 countries, even greater reach is required to fulfil a truly pan-African approach, especially in the fragile, marginalised states and communities where the need is often greatest.

#### *A new delivery mechanism*

FSDs have also self-organised to enable joint decision-making and programming via a new FSD Network Council structure that will complement local Boards. A new FSD Network Directorate, located at FSD Africa will manage this new delivery mechanism.

#### *A new impact narrative*

To strengthen FSD Africa and the wider FSD Network's impact, existing theories of change will be recast to prioritise programming that focusses on jobs and incomes, access to basic services and goods, and sustainability. This shift will enable FSDs to focus on financial market building that tackles pressing development challenges in Africa (e.g. jobless growth, homelessness, climate change) as well as the global goals (e.g. the United Nation's Sustainable Development Goals). In doing so, the 'line of sight' between FSD programming and poverty reduction will become clearer.

Finance has never been an end in itself. As a result, there's a new consensus that FSD work will become systematically more sector specific. With their partners, FSDs will therefore work more intensively at the interface where finance meets important real and social sectors such as climate, housing, agriculture, manufacturing, health etc.

Finally, FSD Africa's initial, strong progress in the long-term finance space will also be replicated by other FSDs, enabling finance to play a role in poverty reduction beyond the household and in economic transformation processes.

This is about finance that benefits poor people, not just finance for the poor.

## **1. Project context - Innovation versus mainstream solutions**

In fragile communities and states, donor grants may be the only source of financing available for private companies. Formal financial systems might not even exist. Loans are often based on constant cash flow, supporting short-term trading but not long-term projects. Judicial systems and ownership titles are usually weak. Businesses cannot borrow against collateral such as land or buildings because no one can be sure that they own those assets; and even if they did, there is no legal forum through which to extract money from the assets to service non-performing loans. Research shows that job creation can contribute to peace by offering opportunities to disenfranchised youth and supporting the most marginalised population groups.

FSD Africa is working with Equity Bank to improve better access to financial services for previously unserved and underserved customers in DRC, improving their livelihoods and resilience while demonstrating the potential of agency banking in a fragile community and state. However, more work is needed, and innovative models need to be developed to support FSD Africa's 'no one left behind' driven from the demand versus supply side. As a result, the initial stage of this assignment will focus on cataloguing entrepreneurship activities and start-up/venture funding requirements and look for innovative models beyond the mainstream solutions that exist. Some examples may include:

- Innovative Impact Investing
- Aligning with private sector community engagement programs, prevalent in FCAS (e.g. CSR/O linkages programs, revenue management) especially in extractive industries, agriculture, etc.
- Investigating digital solutions that build credit models based on psychometric testing and/or transaction history
- Supporting regulatory initiatives that help remedy KYC issues around national ID's
- Improving financial literacy through technology

## **2. Project scope and objectives**

The overarching objective of this consultancy is not only to gain an understanding of the critical barriers to access capital that marginalised communities face but most importantly, identify innovative solutions to improve access to long term liquidity for this demographic.

The output will serve to inform the development of a programme that will look to provide technical assistance/advisory support for both the demand and supply side and at the same time could potentially provide direct or indirect (through an intermediary) investment funding.

The key output will be a report that provides a summary of the current situation with qualitative and quantitative snapshot of the current situation; stakeholder analysis (supply and demand) identifying gaps in the needs relative to the supply; and evidenced-based recommendations for improvement that can be used to develop a unique FSD Africa intervention as a greenfield initiative, bring an existing programme to scale programme and/or could work alongside a partner. This report will be published and used as a knowledge management resource.

The scope of work will commence with an inception meeting and report to agree on approach and develop a joint understanding of the consultancy.

Inception report summarising the proposed approach must be submitted within 15 days after signing the contract. The Inception Report should present comments on the TOR, a methodology, strengths and limitations, a clear timeline (timelines provided are indicative and to agree at the inception meeting), proposed resources necessary to accomplish the assignment. Some other areas to be covered are the evaluation objectives, draft table of contents, the theory of change, the proposed methodology, a pilot design matrix, a stakeholder analysis, as well as a list of potential interviewees and desk research resources to be reviewed against the following core objectives:

### **Objective 1: Needs Assessment - Demand Side**

Assess the unique capital needs of marginalised community enterprises and gain an understanding of how the financing gap is met; the potential impact of improved access to capital can have on their business; opportunities to intervene at the wholesale level through sector/cluster schemes.

- Audit and catalogue top capital needs/constraints (desk research of existing surveys and studies)
- Audit and cataloguing of existing capital instruments currently used by marginalised demographic (desk research of existing surveys and studies) and assess effectiveness
- Determine key access barriers (interest rates, tenure, location, collateral, KYC, etc.) that negatively impact capital access
- Identify statistically significant fragile communities (and/or states) with large reach potential through an intervention (could be a supply chain or sector)

### **Objective 2: Capital Availability - Supply Side**

Assess the current financial instruments available to marginalised groups and develop a SWOT analysis that can be leveraged to develop the framework for an FDA Africa intervention. This assessment should view the real and perceived constraints non-traditional FSPs may face to reach this marginalised demographic with a focus on:

- Identifying what strategies non-traditional FSPs currently have in place to reach this demographic, with an assessment of their risk model.
- Identify key constraints cited by non-traditional FSPs for increasing access to capital
- Identify which investment instruments non-traditional FSPs tend to offer to this market segment
- Identify non-FSP resources (funds, technology providers, MNOs, NGO) that could play a major role in increase capital to marginalised communities

**Output Objective 1 & 2:** Venture Capital heat map, with an overview of the current role of the non-traditional FSPs, private (real sector) and entrepreneurs and an evidence-based recommendation on high level investment interventions. It is expected that much of the work will be pulled from available data through desk research. This output should be developed as a **thought piece** in word format (max 15 pages), which could be later published as a resource that FSD Africa can share with other stakeholders.

*Timeline: 20 days*

### **Objective 3: Assessment and Recommendations Report**

Consolidate findings a word document (up to 45 pages) with highlights in a power point presentation (10-15 slides) that will be used to provide a summary of the current situation of access to capital for the marginalised and provide recommendations for engagement.

- **Market Failures/Gaps/Barriers and Opportunities:** Report to provide a SWOT for the supply and demand side and indicate where regulation (government) reform could have a positive impact.
- **Lessons Learned/Best Practices:** Report to include summary of lessons learned from similar programmes in Africa or globally that seek to leverage provide access to capital to this demographic
- **Measurement:** Within the context of developing a program, what are the key metrics to be used? (reach; increase in access; #of transactions; value of transactions (loans); NPL etc.)
- **Knowledge Management:** Development of a thought piece that could be used to inform strategy or develop a targeted intervention.

### **3. Links to other FSD Africa teams**

The consultant will work primarily with the FCAS team, reporting to the Associate Director - FCAS who will engage the relevant internal stakeholders (pillars, communications and results measurement, etc.) as required. Specific focal points will be identified at the inception meeting.

### **4. Project Outputs & Payment Milestones**

- Inception Report (15%)
- Objective 1: Needs Assessment - Demand Side (30%)
- Objective 2: Capital Availability - Supply Side (20%)
- Objective 3: Findings Summary Report ppt (10%)
- Objective 4: Findings Summary Report word (25%)



### **5. Invitation to Submit Proposal**

FSDA is inviting a proposal from a suitably qualified consultants/consultancy firm.

Your proposal should contain:

- CVs (maximum 3 sides of A4 paper each) of key individuals, tailored to the assignment
- Outline of team structure, including roles and responsibilities of team members

- A summary of your relevant experience for the assignment
- A short description of your understanding of the role of the Consultant and the approach to be used as outlined in these Terms of Reference
- A description of how you intend to fulfil the Services within the suggested timeline and confirmation of your ability to meet the timelines
- An itemised budget for both professional fees and reimbursable expenses, including fee rates, number of days and a breakdown of expenses.

Your proposal, which should not exceed 10 pages (excluding annexures), should be sent by email to FSD Africa at [bids@fsdafrica.org](mailto:bids@fsdafrica.org) by 1200 EAT on 7 May 2020.

## 6. Basis of award

FSDA will award a contract to the consultant based on the following criteria:

| Mandatory requirements  |
|---|
| Firm/individuals must be able to demonstrate conversance with the theme of venture capital/impact investing especially in the context of vulnerable and marginalised populations, with at least 5 years' experience |
| Firm/individuals must be able to demonstrate at least 5 years' experience in developing complex strategies in the context of innovative financing models for fragile situations and marginalised populations.       |
| Must have the capacity to engage intensively with FSD Africa, FSD Africa Investments and their advisors   |

| Assessment criteria   | Weighting (%) |
|---|---------------|
| Relevant, demonstrated experience and capacity of individuals in this area:   | 30%           |
| Understanding/interpretation of the task set out in the TORs / Content, quality and originality of proposal   | 30%           |
| Demonstrated experience working on inclusive finance development in marginalised communities or fragile states in sub-Saharan Africa  | 20%           |
| Fee basis and total costs will be computed as follows:<br><br>$FS = 20\% \times LB/BP \text{ where:}$ $FS = \text{is the financial score}$ $LB = \text{is the lowest bid quoted}$ $BP = \text{is the bid of the proposal under consideration.}$<br>The lowest bid quoted will be allocated the maximum score of 20%.<br><b>Fee quoted must be inclusive of applicable withholding tax</b> | 20%           |
| <b>Total</b>  | <b>100</b>    |

## 7. Contact

Questions or comments in respect of these terms of reference should be directed by email to: [bids@fsdafrica.org](mailto:bids@fsdafrica.org) and be received no later than **1200 EAT on 24 April 2020**. Responses and clarifications will be provided by 1200 EAT on **30 April 2020** through the same advertisement channels

## 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

| <b>Country</b>   | <b>WHT Rate</b> |
|--|-----------------|
| Kenya  | 5%              |
| United Kingdom   | 12.5%           |
| Canada   | 15%             |
| Germany  | 15%             |
| Zambia   | 15%             |
| India  | 10%             |
| Non-resident rate for citizens of EAC member countries (member countries attached) | 15%             |
| All other countries  | 20%             |