

TERMS OF REFERENCE

STUDY ON PRIVATE DEBT MARKETS IN AFRICA

1. Introduction

One of FSD Africa's strategic imperatives is to mobilize long term finance in local currency to fund Africa's developmental priorities. As part of this imperative, FSD Africa is implementing a multi-year, multi-country programme to support the development of private capital markets in Africa, as a complement to the public markets. The 4-year technical assistance programme will be implemented across Africa in partnership with regulators, policy makers, industry associations and other market operators. The programme will seek to increase local institutional investor participation in private equity and debt in the continent through;

- i. Creating a facilitative environment by working with regulators to put in place regulatory provisions and/or incentives to allow for such investments by relevant institutional investors;
- ii. Working with market participants on demonstration transactions and designing of appropriate structures or vehicles to allow for such investments and;
- iii. Capacity and knowledge development of relevant stakeholders, research, advocacy and impact reporting.

FSD Africa wishes to engage a consultant to undertake a study on the private debt markets in Africa. The study will *inter alia* undertake an assessment of the private debt market landscape in Africa, test the demand for private debt as an asset class for investment by institutional investors and proffer insights and recommendations on specific initiatives to be implemented to support the development and growth of this market segment as part of the Africa Private Equity and Private Debt programme.

2. Background

2.1 Financial Sector Deepening Africa (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. 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. We have a specific mandate to invest in breakthrough, innovative ideas that we believe can have a transformative impact. By sharing risk with our partners, we're able to address more difficult, persistent, or higher-risk challenges, in more unstable or fragile geographies, than traditional development finance organisations.

Please find more details about FSD Africa on our website at www.fsdafrica.org.

2.2 Private Equity and Private Debt Markets in Africa

Although small by global standards, private equity and debt markets have raised a significant amount of long-term funding for Africa's businesses. Annual African Private Equity Data tracker¹ indicates that US\$18.7 billion has been raised for the continent over the 6-year period from 2014 to 2019. Early Stage Financing/Venture Capital has been more challenging but has nevertheless closed deals of US\$3.9bn between 2014 and 2019 with US\$1.4 billion being closed in 2019 alone.

Activity in private debt/credit market is less robust and less visible with the ratio of private debt to equity funding being much lower across Africa compared to global levels.² Only 7 percent of funds raised in Africa in the last 10 years have been debt.³

Private markets are increasingly playing an important role in various sectors of the economy with formal public markets only representing a fraction of the long-term finance being intermediated in the economy, as highlighted by a study on [Long Term Finance](#) by FSD Africa. Similarly, private capital markets have a critical role in the infrastructure funding escalator highlighted in the same report.

Despite the increasing prominence of private capital markets and the potentially important role in the short to medium term in supporting the recovery from COVID 19 and ultimately in supporting long term economic growth, institutional investor participation in these markets remains low. Some of the notable concerns by institutional investors in addition to typical risks associated with private capital markets relate to unattractiveness of issues such as J-curve effect in private market investments.

Private debt markets which are far less utilized, may provide greater flexibility in structuring solutions that address some of the notable concerns and that meet the needs of both investors (institutional) and borrowers. In the African context, data on private equity market activity is generally available and tracked by various stakeholders and industry associations, less so for private debt/credit market. Private Debt is also not recognized by regulators in many jurisdictions in Africa as a distinct asset class to Private Equity.

This study is therefore expected to help in facilitating a better understanding of the landscape of private debt market in Africa. This will include size, evolution, management, structure, investment sectors, regulation and investor appetite. The findings will feed into the other initiatives envisaged under FSD Africa's Africa Private Equity and Private Debt programme such as transaction support, regulatory initiatives and knowledge and capacity building engagements. More broadly, this study is expected to provide insights into the potential role that private debt markets could play in Africa and provide specific recommendations on how to increase the flow of institutional capital into these markets.

3. Objectives and Scope

3.1 Objective

The main objective of the study is to undertake a detailed study of the private debt markets in Africa. The study will be in line with the scope of work outlined below.

3.2 Scope of work

The scope of the assignment will cover the areas highlighted below. Without excluding other geographies, the consultant will be expected to zoom in on four priority geographies being; Nigeria, Kenya, Ghana, Morocco.

3.2.1 *Assessment of private debt markets landscape in Africa*

¹ Annual Report by AVCA

² AVCA

³ Emerging Market Private Equity Association (EMPEA)

- a) Take stock of the activity in private debt markets in Africa including but not limited to; number and value of deals, transactions per year over the last 5 years (highlighting relevant industry standard features of these transactions), investment sectors, key investors/funders, current/preferred structures used in investment, currency, performance, pricing, etc.
- b) Assess the level of interest/demand from potential borrowers of private debt i.e., pipeline and why issuers may prefer this form of financing compared to other forms of financing such as bank financing. This will include an assessment of the differentiating factors e.g. pricing, covenants or the relative scarcity of private sector credit compared to other forms of financing.
- c) Assess the various aspects of enabling environment for private debt markets in Africa, including assessment of existing regulatory and investment guidelines on private debt and their sufficiency, impediments to growth of the market, regulatory barriers etc.

3.2.2 *Testing demand for private debt markets, assessment of appropriate structures and building a case for transaction support.*

- a) Engage pension funds and other institutional investors to gauge their appetite for participation in private debt markets. The consultant is expected to obtain perspectives on (i) potential preferred structures that would enable their participation in the market (ii) preferences by institutional investors relating to various factors including but not limited to pricing, rating, guarantees etc that institutional investors would seek to feel comfortable to invest in private debt and how these compare with commercial bank needs who invest in private debt.
- b) Assess the existing and estimated future investment potential and financing need that can be addressed using private debt from institutional investors, this will be disaggregated by sector, industry or other relevant criteria.

3.2.3 *Data driven recommendations and knowledge management*

- a) The feasibility study should detail evidence-based recommendations with the aim of feeding into initiatives envisaged under FSD Africa's Africa Private Equity and Private Debt programme such as transaction support, knowledge and capacity building engagements, regulatory initiatives among others.
- b) A summarized version of the study will be published and used as a knowledge management resource.

3.2.4 *Stakeholder workshops, presentation of findings and implementation plan*

- a) Hold stakeholder workshops to discuss and obtain insights for the study.
- b) Present the findings and recommendations of the report from the study in a workshop to relevant stakeholders for validation.
- c) Prepare and submit a final report in Word and PowerPoint versions incorporating feedback from relevant stakeholders and those arising from the validation workshop. The consultant will also be required to prepare an abridged version of the report that may be published and used as a knowledge management resource by FSD Africa.

It is expected that the study will be conducted using the following approach:

- i) Comprehensive review of relevant document and materials.
- ii) Key respondent interviews with relevant market stakeholders, private debt/private equity/alternative investment specialists among others.
- iii) Interviews .
- iv) Consultative forums/meetings with stakeholders.

- v) Intensive engagement with the FSD Africa team and other key relevant stakeholders.

The above list is not exhaustive, and the consultant is free to suggest additional ways on how the study may be undertaken.

Additional tasks, as a result of a good understanding of key issues relevant to the private equity and private debt markets that will make the study more comprehensive should be addressed and presented in the technical proposal.

4. Timelines and Deliverables

The Consultant is expected to execute the tasks under this scope of work within 18 weeks after award of the contract.

The deliverables under this contract will be as follows:

- a) An inception report including but not limited to; a summary of the proposed approach, timelines, documents and stakeholders to be consulted.
- b) Draft report in word to be reviewed by the project team. The project team will encompass officials from FSD Africa involved in the project.
- c) Stakeholder Workshops - at least one workshop to discuss and obtain views on various aspects relevant to the study and a second one to present the findings and recommendations for stakeholder validation.
- d) Final report, in Word and PowerPoint formats.

Deliverable	Timeline
Inception report	Within 4 weeks of signing of contract
Stakeholder workshop to discuss and obtain insights	Within 7 weeks of signing of contract
Draft report	Within 17 weeks of signing of contract
Final report	Within 21 weeks of signing of contract
Validation workshop	Within 24 weeks of signing of contract

5. Invitation to Tender

FSD Africa is inviting proposals from suitably qualified Consultant (s).

Your proposal should contain:

- CV of the Consultant not exceeding 2 pages.
- A summary of your experience in providing the kind of technical support called for in these Terms of Reference
- A description of your understanding of the role of the selected Consultant (s) as outlined in the Terms of Reference and how you intend to fulfil the services within the suggested timeline.
- Samples of other work to demonstrate capacity to carry out the assignment.
- An estimated budget for both professional fees and reimbursable expenses-Refer to Annex 1

Submitted proposals should not exceed 10 pages (excluding annexures). The review will be based on the main proposal. This should be sent by email to FSD Africa at bids@fsdafrica.org by 1200hrs, (East Africa Time), on 27 May 2021 under a subject line reading 'Invitation to tender: 'Study on Private Debt Markets in Africa'. Applications received after the deadline will not be considered.

6. Basis of award

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

Mandatory requirements
Demonstrated ability and experience to deliver in the assignment outlined in this Terms of Reference (evidenced by previous similar assignments in emerging markets, client references etc.)
Demonstrated familiarity and experience in private equity and/or private debt markets and related operations.
Demonstrated capacity to engage intensively with this assignment, with a view to concluding the work within the stipulated timelines.
Team lead to have at least 8 years' experience in capital markets and private equity/debt markets.

Assessment criteria	Weighting (%)
Experience	30%
Demonstrated ability and experience to deliver in the assignment outlined in this Terms of Reference (evidenced by previous similar assignments in emerging markets, client references etc.)	
A team lead with at least 8 years' relevant experience in capital markets and private equity/debt markets;	
Skills and qualification	25%
Demonstrated track record of designing, implementing or supporting the structuring of private equity or private debt funds.	
Have a team with demonstrable good understanding of private equity/debt markets and related processes.	
Methodology	30%
Consultants must demonstrate a clear and concise understanding/interpretation of the task set out in the TORs.	
Most economically advantageous.	15%
Fee basis and total costs will be computed as follows:	
$FS = 20\% \times LB/BP \text{ where:}$ $FS = \text{ is the financial score}$ $LB = \text{ is the lowest bid quoted}$ $BP = \text{ is the bid of the proposal under consideration.}$	
The lowest bid quoted will be allocated the maximum score of 20%. Fee quoted must be inclusive of applicable withholding tax	
Total	100%

7. Contact

Questions or comments in respect of these terms of reference should be directed by email to: bids@fsdafrica.org and be received no later than 1200hrs, (East Africa Time), on 17 May 2021. Responses and clarifications will be provided by 1700hrs, (East Africa Time) on 19 May 2021 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

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 (member countries attached)	15%
All other countries	20%

Annex 1: Proposed Fee Schedule

Costs should be shown separately in the format set out below. Fees proposed by tenderers should be inclusive of all taxes.

Consultancy fees*	Days	Fee USD/GBP	Total USD/GBP
xx			
xx			
Total remuneration			0.00
Reimbursement costs**	Unit	Cost USD/GBP	Total USD/GBP
xx			
xx			
Total reimbursement cost			0.00
Total proposed costs			0.00
<i>*Fees incl of all taxes</i>			
<i>**Expenses to be reimbursed on actual costs as per FSD Africa's travel policy</i>			