



Request for Expressions of Interest

for Fund Manager

Submission Deadline: June 29, 2018

REQUEST FOR EXPRESSIONS OF INTEREST TO PARTNER WITH THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

1. BACKGROUND

1.1. Reasons Behind the Request for Expressions of Interest (REOI)

The 2030 Agenda for Sustainable Development commits to leaving no one behind, and to meeting the goals and targets for all nations and all segments of society. The Addis Ababa Action Agenda and the 2030 Agenda both identify the need for multiple sources of finance — public and private, domestic and international — to work together effectively, and in new combinations. Yet only a small fraction of global investment assets are currently allocated towards sectors and localities that advance sustainable development in Least Developed Countries (LDCs). Investment flows that are earmarked for LDCs concentrate on too few countries and sectors. And within LDCs, capital tends to flow towards extractive industries, real estate, and narrow infrastructure corridors.

To give one example of how development finance is eschewing higher risk countries, according to data prepared by the Organization for Economic Co-operation and Development, only 7% of private finance mobilized by official development finance (through guarantees and other private sector instruments) targeted the world's LDCs between 2012 and 2015. Many stakeholders today continue to be wary of investing in higher-risk economies due to their challenging operating environments and the multiplicity of project-specific risks related to (*inter alia*) concerns over future cash flows and transaction costs relative to deal size.

If such trends continue and get locked into the financing for development architecture, the danger is that resources will continue to be allocated in ways that entrench exclusions and inequalities between and within countries rather than overcoming them. Important initiatives with the potential for transformational impact at the local economic level in LDCs may continue to fall 'below the radar' of public and private investors. This Request for Expression of Interest ("REOI") represents an effort to change that dynamic and help pool and direct capital to where it is most needed.

1.2. About UNCDF

UNCDF is the United Nations' capital investment organization serving primarily the world's 47 LDCs. With its capital mandate and instruments, UNCDF designs finance models to unlock private resources and to reduce poverty and support local economic development. The organization's goal is to reach pockets of poverty where available capital resources are the scarcest; where development needs are the greatest (collectively, the "last mile"); as well as where benefits from national growth tend to leave people excluded. UNCDF is involved in advocacy, advisory services and investments. There are broadly four thematic areas where UNCDF is most active: financial inclusion, energy, agriculture and infrastructure (all described in more detail in Section 3.2

below). The supported financial institutions, local projects, and local small and medium enterprises (SMEs) are often below the radar of other development finance institutions.

UNCDF has been instrumental in advancing the Sustainable Development Goals' (SDGs) agenda predominantly in LDCs, and with a particular focus on the cooperation with private sector actors. UNCDF is now looking to initiate a partnership with a third party who would establish, fund and manage a private investment fund (the "Fund"). To this end the Fund would aim to catalyze funding to support the SDGs from both public and private sources. UNCDF can itself use a combination of grants, loans and guarantees to support early-stage business models and to seed transformational investment projects that could eventually develop to be submitted to the Fund for eventual financing through it.

UNCDF presently has representation in 32 countries, 29 of which are LDCs (see Appendix 1). Through its active presence in these markets, it has gained a deep understanding of and extensive access to both the public and private sectors. Hence, its footprint and network of partners will be a cornerstone in the offering to the selected candidate. The organization's long engagement in the LDCs has already resulted in an interesting pipeline of high-impact opportunities. A fair amount of these opportunities need grant capital and others just need equity or debt. UNCDF does not have the resources to support the full range of opportunities from its balance sheet. UNCDF's goal with this initiative is to better respond to the capital needs of the companies in UNCDF's pipeline, and projects/initiatives of other UN entities' submitted to and vetted by UNCDF that meet UNCDF's rules, regulations, policies and procedures (the "Pipeline").

In October 2017, UNCDF launched a consultation process, inviting fund managers to discuss potential cooperation models with UNCDF. UNCDF used this initial consultation process to have an open exchange with fund managers on business models, and investment processes. The request for consultation garnered interest ranging from pure commercial investors to impact-driven development organizations and convinced UNCDF to move forward with the intent to partner with a private fund investment manager (the "Fund Manager"). Based on the lessons learned from the consultation process and UNCDF's interaction with other commercial players, UNCDF is now launching an REOI with the intent to identify a Fund Manager to help UNCDF advance SDG-positive investment activities primarily in LDCs, but also in some non-LDC countries.

In accordance with the 2030 Agenda for Sustainable Development, UNCDF's Strategic Framework and Theory of Change for 2018-2021 (see Appendix 2 and 3, respectively) together promote primarily two SDGs: SDG1 on poverty eradication and SDG17 on the means of implementation. As an organization, UNCDF supports the promotion and implementation of these two SDGs through two distinct practices: Financial Inclusion and Local Development Finance, both of which in turn have their own specific Global, Regional, and Country Programs (see Appendix 4). Through these programs, UNCDF also contributes to seven additional SDGs, which are described in Section 3.2. Hence, by partnering with a fund manager, UNCDF aims to better support the SDG implementation.

2. THE PROPOSED PARTNERSHIP

2.1. The Objective of the Partnership

The objective of the partnership is to help advance the 2030 Agenda for Sustainable Development through an innovative public-private approach that will seek to mobilize additional financial resources from multiple sources for SDG-positive investments, primarily for the LDCs. Against this background, UNCDF seeks to partner with the Fund Manager who will establish, structure, fundraise for, and manage a private investment fund whose purpose is to further and support the SDGs. The details of the partnership will be reflected in a separate agreement between the two parties.

2.2. The Objective of the Investment Fund

The objective of the Fund is to support UNCDF's efforts to leverage its pipeline of high-impact opportunities to assist companies in LDCs in working towards achieving the SDGs, with capital provided into the Fund from semi-commercial and/or philanthropic capital, potentially combined with official development assistance. In doing so, the intent is to find a business model for the Fund that generates the risk-adjusted rewards expected by the selected partner, UNCDF, and potential investors. The objective is also to create a private fund with the ability to take on relatively high-risk investments sourced through UNCDF and produce a better pipeline of investable projects to larger number of commercial players in the same ecosystem.

2.3. The General Partner and the Fund Manager

The proposal is to have the Fund Manager assume the role of General Partner and set up the Fund, including acting as the investment manager for the Fund. The Fund Manager will be responsible for executing the investments and post-investment management and monitoring of the portfolio, and establishing an investment committee (the "Investment Committee"). It is expected that the Fund Manager and the Investment Committee will make investment decisions independently of UNCDF. It is proposed the General Partner will use its network to raise capital commitments for the Fund. The Fund Manager may also propose investment opportunities to UNCDF. For the avoidance of doubt, in selecting investment opportunities from the Fund Manager, UNCDF will perform initial due diligence on the investments in accordance with its rules, regulations, policies and procedures.

2.4. The UNCDF

The main role for UNCDF is to ensure that the Fund is provided with a sufficient number of SDG-positive investment opportunities. It is therefore proposed that UNCDF, in support of reaching the objectives of the Fund will act in an advisory role in support of the Fund Manager. All investment opportunities will accordingly either be sourced from UNCDF's own operations or via other investment opportunities further identified by other UN entities (as referred to in the above Pipeline), which are aligned with UNCDF's established rules, regulations, policies and procedures.

It is proposed that UNCDF will use reasonable efforts to identify and facilitate catalytic investments from third parties to the Fund. It is suggested that UNCDF contributes to the

monitoring of these investments, especially monitoring of their social and/or development impact in accordance with its rules, regulations, policies and procedures. UNCDF will not receive transaction-based compensation in respect of any transaction described above and will not advise the Fund or the Fund Manager as to the value of securities or as to the advisability of investing, purchasing or selling securities. As an observer on the Investment Committee, UNCDF will not be entitled to vote on investment decisions.

In addition to its role in the Fund, UNCDF will also consider providing technical assistance to support some of the companies benefitting from the Fund. Such additional support would be dependent on funding raised by UNCDF for this purpose, and therefore an outstanding issue to be discussed once the partnership is formed.

3. CORNERSTONES IN THE PARTNERSHIP

3.1. The Use of UNCDF's Brand

The use of UNCDF's name and emblem is subject to the legal framework of the United Nations.

3.2. The Pipeline

Through its multi-sector programmatic activities, UNCDF supports nine SDGs, namely "Gender Equality", "Affordable and Clean Energy", "Decent Work and Economic Growth", "Industry, Innovation and Infrastructure", "Reduced Inequality", "Sustainable Cities and Communities", and "Climate Action", with two overarching SDGs being "No Poverty" and "Partnerships for the Goals". Within these areas, UNCDF has cultivated a pipeline of opportunities with business models that present innovative, viable and/or long-lasting solutions to issues facing communities in predominantly LDCs. UNCDF's major methods of sourcing these pipeline opportunities have been through technical advisory offerings in various areas. Additionally, the organization has hosted "challenge funds" or "request for proposals" to identify potential recipients of UNCDF risk capital grants to finance last mile business activities.

From a development impact perspective, the potential investees are seeking to achieve one of the following three objectives: (1) direct social impact (that is, products or services sold directly to the underserved to address a specific social or economic need and improve quality of life); (2) local development impact (that is, supporting businesses or projects located in last mile communities that contribute to economic development by invigorating local economies through new capital and spending, employment, and taxable income generation for local municipalities; or (3) project impact (that is, investments into infrastructure that will enhance the living environment and business conditions of underserved populations).

Fourteen countries are represented in the current pipeline (Bangladesh, Benin, Burkina Faso, Cambodia, Laos, Madagascar, Myanmar, Nepal, Senegal, Sierra Leone, Tanzania, Uganda, Vietnam, and Zambia) across nearly 50 distinct transaction opportunities. This a dynamic pipeline and more countries will most likely be added to this list in the future, including non-LDC countries opportunities. It is anticipated that this pipeline can absorb capital of about USD 50 million in aggregate, which may be structured with a first close of a smaller amount (in the range of USD

20-25 million) to be responsive to more time-sensitive opportunities and third-party capital providers. The long-term vision is to replicate and scale the first fund.

The present investment opportunities include the following four distinct categories, which could be further expanded in the future, contingent upon newly identified pipeline: (1) Food Security and Nutrition; (2) Green Economy; (3) Financial Inclusion and Innovation; or (4) Infrastructure; with some overlap between the themes. An additional theme focused on Women and Youth economic empowerment is integrated across these four. Each of the categories are further defined below:

- **Food Security and Nutrition:** Focuses on investments into the agricultural sector. It targets small and medium scale agricultural farms as well as agricultural businesses along the entire agricultural value chain that will be financed directly or indirectly. Prospective investees include cooperatives, commercial farms, processing companies or other agribusinesses which on-lend to the agricultural sector, to fund for instance smallholders or other small and medium enterprises.
- **Green Economy:** Focuses on investments to mitigate the effects of climate change and to drive clean energy access to last-mile communities. Prospective investees include solar and hydro off-grid or mini-grid renewable energy investments, as well as industrial scale renewable energy and selected on-grid installations.
- **Financial Inclusion and Innovation:** Focuses on investments that ensure that a range of financial products are available to all segments of society, at a reasonable cost, and on a sustainable basis, via a wide range of providers (comprising microfinance institutions, SMEs, municipalities, banks, cooperatives, and money transfer companies) and via a variety of financial products and services (including savings, credit, insurance, payments, and remittances). UNCDF also supports models that promote innovative delivery channels (such as mobile phone networks and payment aggregators) that offer the potential for scale.
- **Infrastructure:** Focuses on investments for the financing of catalytic infrastructure (including, but not limited to, transport, communications, schools, and hospital projects) with high local economic development impact. Opportunities will include both greenfield and brownfield investments.

Virtually all of the current proposed potential investees are either financial service providers (FSPs), SMEs, and/or project developers seeking patient senior or subordinated debt funding, and/or guarantees, to finance working capital or fixed asset acquisitions. Given UNCDF's focus on last-mile interventions primarily in LDCs, the majority of the potential investees are early-stage enterprises, where such companies are generating revenue on a limited basis, but where key aspects of the business are still in development. The Pipeline also contains growth-stage enterprises, where the enterprise is establishing its product's or service's position in a market, demonstrated increasing sales, improving profit margins, and ability to cover some or all recurring costs with revenues.

More specifically, the majority of the potential investees have the following characteristics:

- On average, they are seeking growth capital in the range of USD 250,000 – USD 2,500,000 to finance its activities.

- Have business models that have demonstrated proof of concept and are ready to scale, evidenced by certain historical gross revenue levels and/or at least one year of operating history.
- Have an established business and/or strategic plan.
- Have formal legal structures and meet applicable regulatory requirements.
- Have positive net equity and are primarily capitalized with equity and/or grants.
- Have audited financial statements, or at a minimum, financial statements reviewed by an external accountant and a commitment to have audited financial statements within one year from time of request.
- Show a clear path to positive operating cash flow, if not already operating at such a level.
- Have governance and management structures in place with an engaged board of directors.
- Have well-designed sales, distribution, and marketing strategies that are cost-efficient.

3.3. Concessionary funding

During the capitalization of the Fund, UNCDF will use reasonable efforts to facilitate catalytic investments from third parties into the Fund. It will be important to source capital that is able to absorb some of the excessive risks in the investments, and thereby also attract capital with a more return-seeking orientation. It is expected that the concessionary funding can come in the form of a guarantee, grant funding, or a subsidized subordinated loan.

4. OBLIGATORY REQUIREMENTS

The document lists below a number of requirements that the candidates need to fulfil. In order for a proposal to be examined and evaluated, the following requirements must be satisfied.

4.1. Legal Certification

- 4.1.1. The candidate must be legally established and fulfil all legal requirements in its country of registration and operations, including regulatory requirements, taxation requirements, etc.
- 4.1.2. The candidate, its officers, and others representing the candidate must not have been found guilty of any crime or liable for any civil acts of gross negligence or willful misconduct related to the exercise of its profession.
- 4.1.3. The candidates must submit all relevant documentation to confirm the fulfilment of the requirements from subsection 4.1.1. above. If the authorities in the candidate's country of registration and operations do not issue such documentation, a certificate can instead be issued and signed by the managing director, chairperson of the board, or the auditor of the candidate. The document or certificate mentioned cannot be older than six (6) months.
- 4.1.4. Provided that an obligation to register exists in the candidates' country of registration and operation, the candidate must append to the expression of interest a copy of the registration certificate issued by the relevant government agency authorized to issue such a certificate.

4.2. Financial Accounts

- 4.2.1. The candidates must have a stable financial standing.
- 4.2.2. The candidates that are required to prepare annual accounts must demonstrate that the company has a stable financial basis by appending to the expression of interest copies of the most recent year's adopted annual accounts.
- 4.2.3. The candidates that are not required to prepare annual accounts, or newly established companies, must demonstrate that the company has a stable financial basis by appending to the expression of interest both income statements and balance sheets for the two most recent years, or by appending a completed form from the relevant tax authority.
- 4.2.4. The candidates are also required to attach audits from the three most recent years. If such audits do not exist, audits from the two most recent years or the most recent year should be provided.
- 4.2.5. If a candidate is a newly established company it must show that the company has a stable financial basis by appending to the expression of interest share capital or other documents, income statements and balance sheets, if any, as well as a reference to a bank and/or financier.

4.3. Basic Relevant Experience

- 4.3.1. The candidates must show documented resources, competence, and experience in doing transactions in at least two of the four thematic areas listed under "3.2 The Pipeline".
- 4.3.2. The candidates must show documented experience from executing and managing investments made in any of the LDCs (see Appendix 1 for the list of LDCs).

5. THE TERMS OF REFERENCE

Ideally, each question in Section 5 should be answered with fewer than approximately 300-400 words (half a page). If information can be condensed into a shorter format with the help of references (especially Section 5.1), it will be appreciated.

5.1. Relevant Experience for the Partnership

- 5.1.1. Performance and Geographical Coverage – Please describe the company and provide record of the financial performance over the last three years, number and categories of staff, and geographical location of company representatives. Please describe ownership and governance structure of the company.
- 5.1.2. Alignment in Strategies – Please describe the company's business strategy, the use of Environmental, Social and Governance criteria for investment decision-making, and the

linkage with the four thematic areas listed under 3.2, pointing out areas of alignments and differences.

- 5.1.3. Investment Process – Please describe the due diligence process the company uses to assess, execute and monitor potential investments. Please assess how your company may need to adjust its due diligence process if it is to engage with the proposed pipeline. If possible, please append examples of assessments.
- 5.1.4. Financial Instruments – Please describe the company’s experience in deployment of different financial instruments, especially previous experience relating to the financial instruments needed in transactions discussed under the proposed pipeline.
- 5.1.5. Fundraising – Please describe previous fundraising strategies of relevance, the 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.

5.2. Proposed Approach to the Design, Execution and Follow-up of the Fund

This section will test the candidate’s ideas for the partnership and more specifically for the Fund. UNCDF wants to encourage the candidate to be creative in finding a structure that will attract donor funds as well as return-seeking capital.

- 5.2.1. Structure – How would the candidate structure a private fund to attract capital with different risk-return profiles, including grant funds, to finance the opportunities that will be presented by UNCDF? Specifically, elaborate on the following parameters:
 - Ideal size of private fund;
 - Average size of investment; and
 - Fees and compensation – how would the candidate structure a revenue model to make it an economically attractive proposition?
- 5.2.2. Attracting Capital Providers – How would the candidate market the Fund to be successful? Through what channels? To whom?
- 5.2.3. Investment Guidelines – Given what the candidate knows about the investment opportunities generated by UNCDF, how would the candidate design the investment guidelines for the Fund?
- 5.2.4. Governance Structure – Describe the governance structure the candidate would propose for the Fund.
- 5.2.5. Fund Management and interaction with UNCDF – How would you see the fund management implemented? Particularly, how would you see the Fund Manager interacting with UNCDF’s field offices from an origination, execution, and portfolio management point of view? In case the quality of the UNCDF pipeline is not sufficient for the return profile proposed, how would you propose to mitigate such a scenario?

- 5.2.6. Follow-up on Social Metrics – How would the candidate suggest to generate the social metrics, what methodologies would the candidate employ, how would they be documented, and how would they be reported back to the funders (and the supported businesses)?

5.3. Economics

It is expected that there will be a contribution from the Fund to UNCDF in support of its mandate and towards the Pipeline development. While the actual details and amount of the contribution to UNCDF will be further discussed and agreed upon, it is expected that the candidates provide an indication of the contribution amount to UNCDF.

Note that issues like the return target for the Fund, as well as the currency of preference in transactions, need to be discussed further along the partnership's evolution.

6. THE EVALUATION PROCESS

6.1. The Process and Evaluation Criteria

Initially, an examination will be made of the obligatory requirements (see Section 4). The candidates who satisfy the requirements and are deemed to be qualified will have their expression of interest evaluated.

The first step in the evaluation will be to evaluate answers to the questions 5.1—5.3, as listed above. The maximum score is 100 and the division of points are as follows:

Section 5.1. Maximum of 50 points

Section 5.2. Maximum of 40 points

Section 5.3. Maximum of 10 points

The evaluation of responses under Section 5.1 will focus on how aligned the partner is with UNCDF's mission and operation, and a second criterion will focus on the assessment of the fruitful complementarity of the institutions (meaning the enhancement of the other institution's capacity to drive its mission). Section 5.2 will be evaluated based on the creativity of the proposal for the Fund. Another important criterion will be the credibility of the execution (in other words, the realism with which the proposal is written). Section 5.3 will be assessed by the quality of the reasoning about services provided by the different partners (UNCDF and the selected partner) and different cost associated to them, and how those services can be remunerated by the revenue.

Based on the results from sections 5.1—5.3, the top candidates will be called to an interview. The final criteria for assessing the interviewees will be set and communicated to the selected parties before the interviews. The interview will focus on the interested partner's offering to the partnership, and also answer questions from the candidate on UNCDF's offering.

After the interviews, an offer to partner with UNCDF will be sent to the selected party.

It is important to emphasize that this is not a tender or procurement process. In this process, UNCDF is not buying a service, or offering to sell a service in a traditional manner. Instead, the expected outcome is a partnership agreement, with mutual agreed parameters for the cooperation, and where the responsibility for success should be equally distributed between the two parties.

6.2. Questions and Answers Regarding the Contract Documents

During the selection process, the contracting party (UNCDF) is not permitted to discuss documentation, proposals, evaluation, or other such matters with potential partners in a manner which favors or disfavors any of the candidates. Questions regarding the attached documents must be directed to UNCDF at uncdf.eoi@uncdf.org no later than June 25, 2018. A compilation of relevant questions and answers will be published on UNCDF's website at www.uncdf.org/expression-of-interest-fund-manager. Each potential partner 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 period of this exercise.

6.3. Proposed Timing

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| - Launch of the expression of interest | May 25, 2018 |
| - Deadline for submitting an expression of interest | June 29, 2018 |
| - Assessment and ranking of the expression of interests | July 11, 2018 |
| - Interviews with the top candidates (tentatively) | August 6-10, 2018 |

6.4. Notice of Partnership

All candidates will be notified by e-mail as soon as possible after a decision has been made to partner with one of the candidates.

A notice does not mean that a binding contract has been entered into between UNCDF and the winning party. A contract is not legally binding until it has been signed by both parties.

- The expression of interest must be submitted electronically via uncdf.eoi@uncdf.org
- The expression of interest must be signed by the interested party. Scanned signatures are accepted.
- The response and all documentation appended must be in English and contain the information indicated in this expression of interest.

6.5. Appendix Documents

- Appendix 1: Presence in LDCs
 - Appendix 2 Strategic Framework (2018-2021)
 - Appendix 3: Theory of Change
 - Appendix 4: Aggregate Overview of Global and Regional Programs
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