



CONSULTATION PROCESS

OPEN INVITATION TO INTERESTED PARTIES TO EXCHANGE

on a

PUBLIC PRIVATE PARTNERSHIP

with the

UNITED NATIONS CAPITAL DEVELOPMENT FUND

geared towards collaboration on

INVESTMENT VEHICLES

for

MEASURABLE DEVELOPMENT IMPACT

in

LEAST DEVELOPED COUNTRIES

October 17, 2017

Deadline: November 3, 2017

“Without the private sector, we will not have the necessary innovation, we will not have the necessary capacity to discover new markets, new products, new services and to be able to develop new areas in the economy. Without the private sector, we will not create enough jobs, we will not bring enough dynamism and stability to the societies that need to be enhanced with the implementation of the Sustainable Development Goals.”
United Nations Secretary-General, António Guterres, speaking at the World Economic Forum in Davos, January 2017

CONSULTATION PROCESS

I. ABOUT THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers catalytic finance models that unlock public and private resources in “last mile” environments, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and local development investments that show how fiscal decentralization, innovative municipal finance, and structured project finance can drive public and private funding that underpins local economic expansion and sustainable development.

With its existing portfolio of active blended finance programmes, UNCDF uses a combination of performance-based grants, loans and guarantees to promote financing innovative models or approaches that support early-stage and innovative business models and reveal markets to investors; incentivize small and medium-sized enterprises (SMEs) and financial service providers to reach poor and underserved households; and develop a pipeline of transformational infrastructure projects through structured project finance, innovations in fiscal decentralization, and municipal finance. This also facilitates the de-risking the local investment space, attracting public and private finance to scale up what works.

II. RATIONALE FOR THE CONSULTATION PROCESS

The need for UNCDF to be more responsive to the varied and evolving graduation requirements of LDCs calls for increased flexibility and the development new funding mechanisms to support the implementation of the Sustainable Development Goals (SDG), the Istanbul Programme of Action (IPoA) and the Addis Ababa Action Agenda on Financing for Development (AAAA). To adapt to the rapidly evolving landscape, UNCDF is now focusing on the expansion and blending of its capital investment instruments, and pushing out the boundaries of financial innovation to unlock additional public and private finance from international and domestic sources to reach local communities, – where development challenges are the greatest and where resources are most scarce.

For this reason, UNCDF is launching a consultation process on a public-private partnership (PPP) with a well-established impact investing advisor and/or asset manager (“impact investor”) to collaborate on investment vehicles for the Least Developed Countries (LDC). The Organization intends to use this initial consultation process to have an open exchange on the business model, legal

requirements, types of investment vehicles structures and processes. Such investment vehicles would complement the loan and guarantee investment activities conducted by UNCDF under its LDC Investment Platform. This platform activates a toolbox of on-balance sheet capital instruments to catalyze and de-risk investment opportunities to unlock finance for LDC transformation.

III. BUSINESS CASE FOR THE INVESTMENT VEHICLE

LDCs are becoming the “new frontier” markets whose potential has not yet been tapped fully by foreign investors. Moreover, remittances and foreign direct investment are the biggest external private capital flows for LDCs, which can bring into the host country technological know-how, spillovers, training, and improvements in infrastructure, as well as new capital and employment contributing to inclusive and sustainable economic growth. However, compared to other low and middle income countries, LDCs are receiving far less in remittances, foreign direct investment and private equity and debt to facilitate job creation, broad-based growth, and local economic development.

Early-stage enterprises are a primary source of job creation in the LDCs, establishing a new middle class and fueling demand for new goods and services. These enterprises range from small, informal firms in rural areas, to more developed early-stage enterprises in the urban and the peri-urban areas. In this context, some of the challenges to early-stage enterprises have created barriers that act as limiting factors for domestic and foreign investors interested in LDC economies. The three major challenges are as follows:

Firstly, investors and formal financial intermediaries, such as commercial banks, are at times reluctant to serve poor households and micro-enterprises because of the high cost of small transactions, lack of traditional collateral, minimal track record, lack of basic requirements for financing, concern over the ability to evaluate credit and risk issues, and geographic isolation. By making this choice, these institutions are unable to realize the enormous potential in talents and entrepreneurship of this stratum of society.

Secondly, scarce funding to early-stage enterprises is further exacerbated by the fact that it costs too much time and capital to find genuine entrepreneurs with a solid business idea and plan. Today, as most existing private and public funders seek large deals, future entrepreneurs have a more difficult time raising capital to grow their venture successfully. As a result, there are many bankable projects in developing countries that are not being funded by commercial or development finance institutions.

Thirdly, the structural transformation of LDC economies requires awareness of local economic development concerns, value chains that build value locally rather than drain it from the local economy, and the type of transformational investments that can pay returns but also contribute towards global goals such as the Paris Agreement. Additionally, there is very little funding for critical transformational sectors that require long tenor financing, such as environmental recovery or municipal finance.

Addressing these challenges by providing access to capital flows for early-stage enterprises is a prerequisite to stimulate the independence and self-development of poor households and micro-entrepreneurs at local level, in countries affected by growing inequality and where the benefits of growth are not trickling down to the majority.

As the impact investing and private equity industry continues to grow across LDCs, entrepreneurs will need an effective method for locating potential capital providers. Hence, supporting early-stage enterprises to flourish with new financing opportunities is crucial for LDCs, as they play a key role in driving economic dynamism, constitute a driving force for new job creation and growth, and tackle persistent exclusions and inequalities in the local economies and communities, where the poor live and work.

IV. PURPOSE OF POTENTIAL INVESTMENT VEHICLES

Increased access to private sector financing requires the capacity to work across asset classes, sectors, financial instruments and financial structures that private sector investors familiar with. Furthermore, while traditional sources of financing for development, including the Official Development Assistance (ODA), are stagnating or decreasing, new sources of financing for investment in development are increasingly becoming available in the private sector.

For these reasons, UNCDF proposes to promote investment vehicles that channel new, adapted, steady and reliable third-party financing for sustainable development to LDCs. These include UNCDF's own LDC Investment Platform (which issues and manages a portfolio of loan and guarantee investments) and also potential PPPs with existing impact investors that arise from this consultation.

UNCDF's experience indicates that this PPP could lead to LDC targeted thematic funds of US\$50 million with average transaction sizes ranging from US\$200,000 to US\$3,000,000. It could also lead to the re-orientation of existing funds to LDCs in co-financing arrangements with UNCDF's LDC investment platform. These investment vehicles could seek a capital preservation strategy or look to provide concessionary risk-adjusted returns, as well as a measurable well-documented social and/or environmental impact by investing primarily in a portfolio of LDC catalytic investment opportunities, including of a small-scale nature and at the local level.

The investment vehicle could prioritize thematic areas such as the green economy, food security and nutrition, infrastructure and services, economic empowerment of women and youth, and financial inclusion and innovation, all of which are directly linked to relevant SDGs.

The correct impact measurement standards can operate as a tangible communications tool to showcase how the investment vehicle is activating capital to support inclusive growth and sustainable development in LDCs.

In the spirit of a PPP, UNCDF can deploy its capital instruments (i.e. grants, loans, guarantees) as pre-investment and seed capital in investable projects – blending it with domestic and cross-border finance, and allowing donors to leverage the ODA entrusted to UNCDF to mitigate the risk of the investments that institutional and private sector investors would pursue through the investment vehicle.

V. CONSULTATION PROCESS SCOPE AND OBJECTIVES

The purpose of the consultation process is for all involved to gain a better understanding of how prospective impact investors perceive the risks and benefits of financing early-stage enterprises with social impact goals in LDCs, and their views on the establishment of a PPP with UNCDF geared towards collaboration on impact investing in LDCs through existing or new funds. The scope of the discussions with interested parties as part of the consultation process may indicatively include (but not be limited to):

- Overall feasibility of the PPP concept and the investment vehicles development.
- Assessment of the interest in this partnership opportunity and conditions for participation by interested parties, including.
 - Business model and fee structure.
 - Roles and responsibilities.
 - Relationship to UNCDF and its activities
 - Funding potential / attractiveness.
 - Possible barriers to successfully develop the investment vehicle and associated risks.
 - Investment criteria for prospective portfolio.
 - Criteria of evaluation of the investments.
 - Measurement of development impact for the investment vehicle and potential key performance indicators.
 - Prioritization of thematic areas.
 - Target capitalization of the investment vehicle.
 - Financial model assumptions and overall economics.
- Considerations regarding the legal and regulatory framework which could affect the investment vehicle in LDCs.
 - Implementation considerations.
- Key parameters in the establishment of the investment vehicle.
 - Geographical coverage.
 - Optimal number of enterprises to be allocated (minimum – maximum number, economies of scale considerations, etc.).
 - Suggestions for optimizing the rollout of the investment vehicle and ensuring successful development and investment outcome.
- PPP model with UNCDF.
 - Cooperation / relationship model.

- Method for cost recovery.
- Other issues to be considered.
- Potential request for proposal (RFP) process to be followed by UNCDF for the selection of the impact investor(s) for collaboration on systematic investment pipelines.
 - General contents of RFP – information requested of potential candidates.
 - Selection / evaluation criteria to be considered.
 - Timeframe for response to the RFP.
 - Steps to be followed after the completion selection process, needed to finalize the PPP and proceed with its implementation.

VI. CONSULTATION AUDIENCE AND CONDITIONS OF PARTICIPATION

Prospective participants in this consultation process effort should be parties interested in a PPP initiative with UNCDF focused on collaborating on investment vehicles targeted at Least Developed Countries and their structural transformation. Every interested party contacting UNCDF shall provide a short profile of their entity and develop their rationale participating in this process and establishing a PPP with UNCDF.

The audience and active contributors to this consultation must demonstrate the following minimum qualifications:

- Five-year firm existence.
- Firm must be an impact investor similarly regulated within the jurisdictions in which it operates.
- Cumulative assets under management in one or several LDC markets must have been equal to or greater than \$50 million as of December 31, 2016.
- Minimum three-year investment track record in LDC markets with deployment of blended finance resources or contributing to a blended finance investment strategy.
- Experience in origination and portfolio management of private debt and/or guarantee impact investment instruments.
- Independently audited financial reports for past three years.

VII. TIMEFRAME AND PROCESS OF PARTICIPATION

Depending on the number of interested parties interested in the proposed PPP, the consultation process shall normally be for a period of no less than two weeks. The suggested participation process is as follows:

- All interested parties by November 3, 2017, shall submit a short profile of their entity by e-mail, at consultation@uncdf.org, declaring their interest to participate in this process.

- Additionally, it is preferred that a brief note with the interested parties' initial views on any topics on the proposed investment vehicle (as well as any other topic deemed important by the interested party), is also submitted.
- UNCDF will contact the interested parties to arrange a bilateral exchange with UNCDF senior managers and investment specialists. All consultations will be held by teleconference or videoconference
- If deemed necessary and time permits, additional meetings with interested parties may be held.

Throughout the process, UNCDF will cooperate fully to provide any relevant information and/or available material that will help interested parties to better assess this opportunity and confirm their interest.

All information provided by interested parties to UNCDF will be treated as confidential.

For any further information or inquiries regarding the consultation process, and preliminary technical inquiries regarding the investment vehicle proposal, interested parties may contact Mr. Anders Berlin, Senior Advisor (e-mail: anders.berlin@uncdf.org) and Mr. Abdul-Rahman Lediju, Investment Advisor, LDC Investment Platform (e-mail: abdul-rahman.lediju@uncdf.org).

VIII. LIABILITY RESTRICTION

The above Consultation process is not part of a tendering procedure. By no means does it constitute a commitment on the part of UNCDF to enter into any contract or enter into negotiations with any third parties, nor does it give rise to any obligations on the part of UNCDF.

None of the information contained in this document constitutes an invitation, offer or recommendation to enter into negotiations with any third parties regarding the establishment of the proposed investment vehicle.

UNCDF may at any time and unilaterally amend, change, complement, revoke, suspend or terminate this consultation process.

None of the expressions of interest submitted will be binding on UNCDF or any of the parties expressing their interest, nor will any such expression constitute a prerequisite for participating in the tender concerning the establishment of the proposed investment vehicle.

All information to be provided by UNCDF in the context of this consultation process will be strictly confidential and cannot be subject to further disposal, publication or disclosure in any manner whatsoever without prior permission from UNCDF in writing.

This consultation process is governed by UNCDF's rules and regulations.