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LOCAL ADMINISTRATIVE ENTITIES DEVELOPMENT AGENCY (LODA)

Study on the establishment of a revolving investment fund in Rwanda based on the Local Competitiveness Facility (LCF)

Tender Reference Number: 135/RDSP/2016-2017

Procurement Method: Individual Consultant

Date of Issue: January 2017

Funding: BTC/RDSP

Terms of Reference for a Study on the establishment of a revolving investment fund in Rwanda based on the Local Competitiveness Facility (LCF)

1. Background and problem statement

The Local Competitiveness Facility (LCF) is a matched grant facility to support private business partnerships focusing on value chain integration. NGOs and Training and Vocational Centres (TVETs) can also be a partner under certain conditions. Four Districts were selected to pilot LCF, namely Nyagatare, Gisagara, Gakenke and Rutsiro. One District per Province was chosen, to promote interlinkages in value chains to facilitate trade and business development.

The main purpose of LCF is to fund innovative economic partnerships projects to enhance pro-poor local economic development (LED).

The relevance of LCF lies in its ability to enhance pro-poor LED, which means that a pro-poor economic impact should be made in the Districts where LCF is implemented so that jobs can be created, income can increase and value can be added to the District economies.

To this end, the four objectives of LCF are as follows:

1. LCF will fund projects that will make a positive LED impact
2. LCF will fund projects that make a real pro-poor impact
3. LCF will fund partnerships between micro, small, medium and large companies or cooperatives
4. LCF will fund innovative project ideas in the area of value chain development to mitigate cost and risk barriers that inhibit development of innovative private sector partnerships

Currently, LCF has been implemented as a grant fund. The comparative advantage of LCF is that there is no other fund that focuses on providing funding to business partnerships. The rationale of providing funding to business partnerships lies in the fact that in this way micro and small companies/cooperatives could get access to certain value chains and markets, which they alone cannot achieve. This ensures economic inclusion of micro and small companies/cooperatives which is important to achieve economic growth. Also, micro and small companies/cooperatives could cluster together to reduce transaction costs and risks which inhibit individual companies to grow. In addition, the LCF assessment identified that access to finance is the main barrier for MSMEs to grow. The available finance options are out of reach for many MSMEs due to high interest rates, unaffordable deposits, lack of understanding of procedures, communication barriers, and a risk-averse attitude from finance providers to MSMEs due to the high rate of defaulted loans. LCF grant fund is an answer to this issue as it provides matched grants without expected beneficiaries to pay back.

However, questions have been raised whether it would be opportune to switch to a revolving loan or equity investment fund because of sustainability reasons. If LCF would be a loan fund, or an

investment fund, at least some of the capital would return and ensure (part) of LCF's sustainability. Likewise, there are concerns about the possible capital substitution effect of LCF and crowding out of the domestic financial sector. For the sake of sustainability, the domestic financial markets should be encouraged to develop and apply affordable products that support value chain-based partnerships or clustering for micro- and small enterprises. LCF, established as a commercially-based fund, will allow domestic financial institutions and companies to engage with this segment of the private sector and will contribute to the development of the domestic financial markets.

Hence, there is a need to conduct a feasibility study to cover the following issues:

- 1) Comparison of various models of commercially-based and noncommercial funds (LCF loan fund, LCF venture/equity investment fund and LCF grant fund), particularly in the context of least developed and developing economies, to identify the best option for Rwanda, given the considerations of relevance, effectiveness, efficiency and sustainability;
- 2) The feasibility of transforming LCF (or part of LCF) as it currently exists into a revolving fund and/or venture/equity investment fund, considering the existing legal and regulatory frameworks, the state of financial markets, the interest of key stakeholders in a revolving fund and the opportunities for its capitalization, including the tentative cost of capital (CoC) as well as the key activities and timelines associated with this transition; assessment whether LCF AS a grant/revolving/investment fund will not create market distortion. The feasibility should include whether LCF can become a public-private partnership (PPP) as defined in the Rwandan PPP law where both GoR, development partners and financial institutions can contribute to;
- 3) The appropriate institutional setup for the future fund in terms of its ownership and management, key governance arrangements, and design issues, including financial instruments and products used, terms of funding and proposed funding windows as well as non-financial support that such a fund may be providing to complement its financing objective, and key partnerships.

2. Scope of work and Objective of the assignment

The scope and objectives of the assessment are:

1. Assess the need and the feasibility for LCF as a revolving fund, meaning that beneficiaries receive funding which they pay back, in full or partially depending on the type of the funding as well as possibly the size and nature of the project, after a certain period of time. A comparison should be included with other existing loan funds in Rwanda as well as with good international practices, particularly in the context of least developed and developing economies.
2. Assess the legal, regulatory and financial feasibility of transforming LCF into a revolving and/or venture/equity investment fund with the option to (re)invest part of the money in financial instruments (equity, debt and possibly grants) and to (re)capitalize such a fund from external

sources (e.g. banks, investment funds, and other financial institutions), including an assessment of the appetite of investors like companies, banks, international public investment funds (e.g. BIO, Alterfin, etc.), sovereign wealth funds, etc... to invest in LCF as well as the tentative cost of capital (CoC).

3. Assess whether LCF AS a grant/revolving/investment fund will not create market distortion
4. Assess whether LCF can become a public-private partnership (PPP) as defined in the Rwandan PPP law where both GoR, development partners and financial institutions can contribute to.
5. Compare various types of revolving and non-revolving mechanisms, such as LCF loan fund, LCF equity investment fund, LCF grant fund or a combination of the three and determine which, or which combination, would be the best model for Rwanda.
6. Suggest the appropriate institutional setup for the future fund, including ownership, governance and management arrangements as well as financial instruments and products to be used, terms of funding and proposed funding windows as well as non-financial support that such a fund may be providing to complement its financing objective, and key partnerships.

Overall, the design of the fund should cover the following issues:

- a. Targeting policies
- b. Financial policies
- c. Capital policies
- d. Underwriting criteria
- e. Development services
- f. Relationship policies

3. Activities, deliverables and deadlines

The consultant will undertake the following tasks for achieving the consultancy deliverables:

Nr	Task	Duration of each activity
1	Collect relevant documentation for the assignment (desktop and interviews with relevant stakeholders)	5 days
3	Write an inception report which should include detailed methodology of how the required objectives will be achieved	3 days
4	Conduct meeting with LODA for presentation of the inception report	1 day
5	Data collection as per methodology	15 days
6	Compile the results of the data collection and prepare and ensure timely delivery of an analytical report synthesizing the findings and outcome of the research in a draft report	15 days
7	Prepare a ppt presentation to present the draft report of findings to LODA	1 day
8	Present a ppt presentation on an intermediary/draft report on which	1 day

Nr	Task	Duration of each activity
	comments can be given	
9	Make a final report incorporating comments	5 days
10	Present final report answering the objectives of the assessment	1 day
	Total number of consultancy worked and paid days	47days

4. Expected Outputs

The consultant shall provide the following reports along the execution of the assignment:

Nr	Deliverables	Deadline (days after contract signing)
1	An inception report stating the comprehensive methodology to conduct the study, a detailed work plan, the list of documentation, the plan for stakeholders, and the tentative structure of the report.	8 days
	Contracting Authority comments on the Inception report	13 days
3	Draft report made of three parts: <ul style="list-style-type: none"> ✓ the first part providing an overview of the best international practices in least developed and developing countries to improve access to finance for micro- and small enterprises to promote value chain-based partnerships and with recommendations for the best option in Rwanda; ✓ the second part compiling the results of assessment/findings from the data collection; and ✓ the third part stating the conclusions and recommendations of the research 	46 days
	Contracting Authority comments on draft report	51 days
4	A final report after incorporating all comments and inputs from stakeholders.	55 days

5. Duration

The implementation duration of the consultancy is expected to not exceed 47 working days starting from the date of the signing of the contract over a period of three months.

6. Profile of the consultant

- A MBA or master's degree in economics (option finance, investment banking) or another relevant subject (proven with degrees' certificates)
- Ten years' experience in banking/finance in private sector with focus on private sector finance in least developed and developing countries
- Five years' experience in undertaking similar consultancy assignments (conducting studies on feasibility of grant/loan/investment funds) proven by service certificates
- Extensive knowledge in research and assessments (i.e. sampling, data collection and analysis)
- Very good knowledge of working with local government, national government and development partners in Rwanda (at least five years of experience)
- Having worked for a grant fund/revolving fund programme would be an added advantage
- Excellent English writing skills proven by certificates.

7. Application

The interested individual consultants will be required to submit their interest and technical proposals.

Interest and Technical proposal will be composed by the following:

- a) Letter of confirmation of interest and availability.
- b) Detailed Personal CV indicating all past experience of the candidate and at least three (3) professional references.
- c) Listing of relevant references realized in the last 5 years in the consultancy field with central and local governments as well as the contact details (email and telephone number)
- d) A clear methodology, on how they will approach and complete the assignment;
- e) A work plan for the assignment

8. Evaluation of proposals

Technical proposal will be evaluated on 100% :

Evaluation grid for the technical proposal

Criteria	Maximum score
MBA or master in economics, finance and investment or similar	10%

Ten years' experience in banking/finance, with focus on private sector finance in least developed and developing countries (2.5 point for each year)	25%
Experience in undertaking similar consultancy assignments (conducting studies on feasibility of revolving funds) proven by certificates of good performance (5 points for each certificate)	25%
Extensive knowledge in research and assessments (i.e. sampling, data collection and analysis)	20%
Very good knowledge of working with local government, national government and development partners in Rwanda	10%
Having worked for a grant fund/revolving fund programme would be an added advantage	5%
Fluency in English	5%
Total	100 %

After the technical evaluation, the best ranked will be requested to submit a financial proposal. This will be negotiated with the contracting authority. In case negotiation fails, other consultants will be contacted in the ranking order.

Financial Proposal should include unit cost and total of the following items:

- Honorary fee of consultant
- Transportation cost
- Necessary Office cost

The total cost shall include also the applicable tax.
