

EXPRESSION OF INTEREST: FUND MANAGER FOR A PROPOSED FUND TO FACILITATE THE TRANSFER OF MULTILATERAL DEVELOPMENT BANK (MDB) PORTFOLIOS FOR DOMESTIC PRIVATE SECTOR INVESTMENT

1. Summary of EOI

Financial Sector Deepening Africa (FSD Africa) wishes to pre-qualify Fund Managers interested in executing the day-to-day management and administration of an anticipated investment vehicle. The proposed investment vehicle (the Fund) provides an opportunity for domestic institutional investors in Africa to invest in highly rated MDB assets, expanding MDBs lending capacity and deepening domestic capital markets. The fund aims to scale the mobilisation of private domestic capital in Africa.

2. About FSD Africa (the Sponsor)

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 financial sector experts work alongside governments, business leaders, regulators, and policymakers 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.

More information on FSD Africa is available [here](#).

3. Background

In June 2023, FSD Africa was awarded funding from the MDB Challenge Fund to develop a project focused on a "Local Currency Solution for Multilateral Development Bank Portfolio Transfer" (the 'Project'). FSD Africa's proposed solution aims to empower Multilateral Development Banks (MDBs) to provide more financing to developing and emerging economies. This is aligned to the recommendations of the G20 Independent Review of MDBs' Capital Adequacy Framework (CAF) report. The focus area is on promoting financial innovation and the development of new instruments to catalyse private investment.

The Project seeks to explore ways in which project portfolios funded by Multilateral Development Banks (MDBs) can be transferred to the private sector through a local currency solution, particularly once projects become operational, i.e., brownfield projects. Distinct from earlier attempts to transfer investment projects originated by MDBs to the private sector, the aim of this project is to provide capital relief to MDBs while deepening domestic capital markets by providing institutional investors, such as pension funds in select emerging markets, greater opportunity to invest in highly rated assets created by MDBs.

The Project builds on earlier analytical work, such as that undertaken for FCDO by Mobilist on the "Exit Mobilisation Opportunity in Africa" (March 2021) and will incorporate industry experience from previous efforts to undertake portfolio transfer using capital market instruments, such as AfDB's Room2Run Program and the privately sponsored ILX Fund.

Since June 2023, FSD Africa has undertaken a feasibility assessment of the opportunity for a local currency solution for MDB portfolio transfer through engagements with MDBs working in Africa, Institutional Investors, Fund Managers, Investment Banks, Pension Industry Regulators

and Supervisors and other stakeholders in selected pilot countries. A summary of FSD Africa’s observations is as follows:

- There is a critical mass of loans made by MDBs on commercial terms that could be transferred to institutional investors. However, there is a need for more complete and current disclosure regarding MDB exposures.
- There is interest amongst MDB shareholders and management teams in solutions that enable more efficient allocation of MDB capital. It is acknowledged that the asset transfer would place pressure on MDBs to create a pipeline of bankable ‘replacement’ projects.
- Institutional investors in selected pilot countries have appetite for asset diversification given their significant exposure to government securities and have the capacity to absorb transferred portfolios. In addition to investments in local currency, fund managers have appetite for a fund structure that provides investment opportunities in hard currency, given the prevailing depreciation of most African countries. On the other hand, regulations constrain the scope for investment in foreign currency and making available investments in local currency will contribute to deepening domestic markets.
- Domiciliation considerations are important for investment limits and regulatory restrictions applicable to different investors. These considerations are particularly important for local currency solutions. The intention is therefore to establish sub-regional asset transfer arrangements e.g. for East Africa and West Africa.
- There is support from pension industry regulators for investment solutions that support the deepening of domestic capital markets. Asset diversification by institutional investors would benefit domestic financial markets and is sanctioned under current regulatory frameworks.
- Attention needs to be paid to establishing an institutional framework for managing the asset transfer process. This will involve exploring the legal aspects of the portfolio transfer process, exploring the institutional structure required to oversee the asset-transfer process involving several MDBs, and establishing the capacity to assess market risks and the eventual need for facilitation (e.g., in the form of guarantees) as the market develops.

Further observations are included in FSD Africa’s Inception Report on the feasibility of a local currency MDB portfolio transfer solution (October 2023), in **Annex 1**.

The intention is to establish a specialised debt fund, with FSD Africa appointing a Fund Manager to design, raise and operate the fund. FSD Africa will be sponsoring the establishment of the Fund as part of its developmental role in mobilising private sector capital at scale through innovative financing structures.

Proposed structure of the fund

Design considerations	Options for determination
Legal structure	To be determined
Fund domicile	To be determined
Fund structure	Umbrella fund overseeing and managing regional and country sub-funds
Management structure	LP/GP Incentives: Management fee & carry

Fund governance structure	To be determined
Investors	African institutional investors (pension funds, insurers, sovereign wealth funds, HNWI's)
Geography ¹	East Africa: Kenya, Tanzania Uganda West Africa: Ghana, Nigeria WAEMU region: Cote D'Ivoire, Senegal (Geographic focus to be validated)
Eligible assets	MDB private sector loan portfolios or other loans financed on commercial terms. Hard currency and local currency denominated portfolios. The possibility of refinancing FX assets in local currency should also be considered
Sector focus	All sectors financed on appropriate terms
Investment strategies	Funded participation agreements, co-investment/syndication arrangements or other methods
Investment returns	Yield
Fund term	To be determined
Fund size	To be determined
Distribution	To be determined
Fund listing	To be determined
Fund credit rating	To be determined

A tentative schematic of the proposed Fund is shown in **Annex 2**.

The fund structure above is indicative and provides a framework for the selected Fund Manager to test rather than what the Fund Manager is expected to deliver. It is FSD Africa's intention to co-create the fund with the Fund Manager as much as possible.

4. Objectives of EOI and Fund Manager's Scope of Work

4.1 Objective

The purpose of this EOI is to enable FSD Africa to identify Fund Managers who may be interested in co-designing and raising the Fund, setting-up and implementing an investment process and appropriate legal and governance structures to operationalise the Fund. Pre-qualification through this EOI will ensure that interested firms are shortlisted and invited to submit proposals in a subsequent Invitation to Tender (ITT) process.

4.2 Scope of work

FSD Africa seeks an experienced fund manager who will support the establishment of the proposed fund and manage its day-to-day administration. The fund manager will design a viable business model, identify, and secure investors to the fund, build an understanding of MDB portfolios (structure, pricing, local/foreign syndication arrangements etc) and identify a pipeline of eligible assets, execute the transfer of MDB assets to the Fund and put in place the necessary processes, policies, and procedures to achieve a profitable portfolio and a suitable financial return to investors.

¹ FSD Africa's feasibility study focuses on markets in East Africa and West Africa with a relatively deep institutional investor base. The selected Fund Manager will provide input to the geographic selection as part of the co-creation process.

This call for EOI aims to identify firms possessing the following qualifications:

- Significant experience in setting up and managing multi-jurisdictional funds, particularly in any or all the Fund's target geographies (Kenya, Uganda, Tanzania, Ghana, Nigeria, Cote d'Ivoire, Senegal).
- Suitably qualified and experienced teams with the capacity to build, manage and exit a portfolio of debt investments, with a robust approach to portfolio diversification and risk management.
- A deep understanding of the macroeconomic and investment landscape in Africa, particularly in the Fund's focus countries and a solid understanding of the global investment environment.
- Well-founded strategies for sourcing deal flow and a proven track record in sourcing capital from institutional investors (pension funds, insurers, sovereign wealth funds, HNWI's etc), preferably in Africa.
- Strong global and regional networks in the investment space with good global and regional perspectives.
- Demonstrable capacity to administer investments, including the availability of robust and tested investment, monitoring and reporting systems, processes, and governance arrangements, or the ability to make alternative fund administration arrangements.

5. Expressions of interest

Procurement of the Services is subject to a full international tender. This requires a two-part process:

- In the first part, **Expressions of Interest** (EOI) are invited from all interested firms (this document). This invitation is open for a minimum of 20 calendar days.
- In the second part, following a shortlisting process, FSD Africa will issue an **Invitation to Tender** to shortlisted firms.

FSD Africa will prepare a detailed Invitation to Tender document following the EOI phase. At this point, FSD Africa is inviting EOIs from all interested firms that meet the qualification requirements set out in this EOI.

Your EOI should contain:

- A description of your firm's history, ownership, and organisational structure. Include the details of relevant regulatory licences to perform fund management functions in your jurisdiction(s) of operation.
- Documentary evidence of meeting the qualifications set out in 4.2 above.
- A summary of any past/ongoing material litigation, regulatory, legal proceedings, or sanctions in which your firm or its principals have been involved in the last five years.
- Preliminary views on the proposed structure of the fund and suggested changes/additional input based on market insights and investment strategy for profitable performance.
- A brief outline of team structure, names, and CVs of key individuals that the firm would propose to manage the Fund.
- The firm's fee structures or fee arrangements for managing Funds of this nature.
- Description of specific support required from fund sponsors to successfully set up and operationalise the fund.

Your EOI should not exceed 10 sides of A4 (font size 11), excluding any CVs, company experience sheets, company brochures etc. and should be emailed with the subject "Expression of Interest

- MDB Portfolio Transfer Fund - Fund Manager” emailed to bids@fsdafrica.org by 1200 East African Time on 30 April 2024.

6. Contact

Questions or comments in respect of this request for Expressions of Interest should be directed to bids@fsdafrica.org, on or before 12 noon (EAT) on 15 April 2024, under the subject line “Expression of Interest - MDB Portfolio Transfer Fund - Fund Manager”.

Annex 1: FSD Africa Inception Report (October 2023)



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Annex 2: Fund Schematic (Tentative)

