

RESPONSE TO BID CLARIFICATION QUERIES

PROPOSED SME DEBT FUND IN KENYA

No.	Question	Responses
1.	Jurisdiction: While we can, and welcome being regulated by CMA, would we have flexibility on the domicile of the fund for investment, administration, and tax efficiency?	<ul style="list-style-type: none"> Ideas on how to set up an optimal fund structure are welcome.
2.	<p>Fundraising and Allocation: The document says US\$100 Mn first close</p> <ul style="list-style-type: none"> What is FSD Africa’s commitment and what is the minimum commitment being sought from the Fund Manager. How is the first US\$100 million commitment made up? Will FSD commitment be the equity portion of the 3-tiered structure? Is the FSD Africa Commitment contingent on the Fund Manager raising a minimum amount? Will FSD Africa’s commitment be subject to Management Fees and/or Carried Interest? How long is the Fundraising period envisaged to be? The document mentions 3-tiered strategy to be raised by different classes of LPs, is that compulsory or on Fund Manager’s discretion? 	<ul style="list-style-type: none"> FSD Africa will potentially invest 5% as equity for the first close. The fund Manager is also expected to make an equity contribution in the fund. The proposal is to crowd in \$4 for every \$1 of catalytic capital. In which case the US\$ 100 million will be composed of US\$ 20 million catalytic capital (first loss & junior debt) and US\$ 80 million commercial capital that has been crowded in. The fund manager is welcome to propose a capital structure that can best achieve the fund objectives. The fund manager’s proposal is expected to include a proposed fee and compensation structure for the entire capital stack from all categories of investors. The proposal is expected to include a proposed fundraising strategy and timeline. The proposal is for the fund to have a blended capital structure to be able to crowd in local investors. The fund manager would be welcome to provide recommendations on the most ideal structure that would facilitate this objective.
3.	<p>Investment Period and Strategy:</p> <ul style="list-style-type: none"> How long is the Fund Tenure anticipated to be and what will be the investment period? As it is a three-tiered fund, the strategy may differ for each asset class depending on the LP mandates - 	<ul style="list-style-type: none"> The fund will be an evergreen fund. There are no caveats or conditions at this stage, but the fund manager is welcome to include the conditions under which different LP

	<p>Are there any caveats or conditions we should be aware of?</p> <ul style="list-style-type: none"> • The investment strategy needs to include potential investment in ventures in Kenya predominantly and some other east African countries- Is there guidance on allocation between countries? • What is the exact definition of SME's – Is it based on a cap of Revenue as per Europe/US standards? 	<p>mandates can be optimally and profitably managed.</p> <ul style="list-style-type: none"> • The fund manager will be expected to provide guidance on the country allocation based on their understanding of and experience in the East African markets. • MSMEs are defined according to definition provided by the Kenya MSME Working Group consisting of KBA Secretariat, local and regional banks, entrepreneurs, Micro and Small Enterprise Authority, Ministry of Industrialization, Trade and Enterprise Development, Kenya Institute of Management (KIM) and the Kenya Association of Manufacturers (KAM
4.	<p>TA Facility:</p> <ul style="list-style-type: none"> • Can you provide further details on the use of the TA facility and the quantum? Or is this an area we jointly develop in the next phase? 	<ul style="list-style-type: none"> • This is an area the fund manager and sponsor will jointly develop in the next phase. The fund manager is expected to provide their initial thoughts on how a TA facility can be structured and deployed to support the fund objectives.
5.	<p>Structure of the Partnership:</p> <ul style="list-style-type: none"> • Will FSD Africa be a pure LP, or will it be a Co-GP structure with FSD Africa's active involvement? • What setup facilities will FSD Africa provide, and costs will FSD Africa absorb if any in addition to their Fund Commitment? 	<ul style="list-style-type: none"> • The structure of the fund has not been determined yet. Regardless of the structure FSD Africa will be an investor in the fund and will not be involved in active (day-to-day) management. • Part of FSD Africa's contribution will be applied towards offsetting the set-up costs.
6.	<p>This sentence is not clear “The proposals (technical and financial) for the pre-set-up and post-setup phases should be presented separately in the submissions,”. Namely, should there be 2 or 4 proposals in total ;</p> <ul style="list-style-type: none"> • 2 i.e. One Technical for phase 1 and phase 2 and One financial for phase 1 and phase 2 OR • 4 i.e. technical and financial for phase 1 and technical and financial for phase 2)? 	<ul style="list-style-type: none"> • The fund manager should submit only one proposal. The proposal should have separate sections on pre-set-up and post-set-up phases. The financial proposals for each of the phases can be captured under respective sections.

7.	Will FSD be awarding the tender for phase 2 together with phase 1 or will phase 2 only be done by the SME debt fund Board on completion of phase 1? In other words, is it possible for Fund Manager to win tender for phase 1 and not be appointed for Phase 2? Must the joint venture partners for phase 1 be the same as those for phase 2?	<ul style="list-style-type: none"> • FSD Africa will award a contract for phase 1. Contracting for phase 2 will be subject to appointment by the SME debt fund board upon completion of phase 1. • The joint ventures partners do not need to be the same for the two phases.
8.	How flexible is the regional dimension of the strategy (i.e. exposure outside of Kenya)?	<ul style="list-style-type: none"> • The fund manager will be expected to provide guidance on the country allocation based on their understanding of and experience in the East African markets.
9.	Does the strategy focus on loans (senior/subordinated) or also bonds?	<ul style="list-style-type: none"> • The strategy focuses on debt to SMEs directly or indirectly through selected intermediaries. The fund manager will have flexibility on how to deploy debt instruments especially for the direct investment strategy.
10.	Please clarify the typical company profile the fund would be targeting in terms of size/TA (or similar metric)	<p>The fund will target MSMEs as defined by the Kenya MSME Working Group.</p> <ul style="list-style-type: none"> • Micro Enterprise (1-9 employees, < Ksh 1million in revenue, N/A in Assets) • Small Enterprise (10 – 49 employees, Ksh 1m – Ksh 50m in Revenue,>Ksh 3m in assets. • Medium Enterprise (50 – 150 employees, Ksh 50m – Ksh 250m in Revenue,>Ksh 4m in assets. <p>The micro and small enterprises are expected to be serviced through the indirect strategy (i.e. through intermediaries) while the medium enterprises will be serviced through the direct strategy.</p>
11.	Kindly clarify the impact topics the fund is expected to target	<ul style="list-style-type: none"> • Unlocking domestic capital to address the MSME financing gap. • Increased access to long-term patient capital for MSMEs. • Reducing the cost of capital for MSMEs

		<ul style="list-style-type: none"> • Increased access to finance for women/youth led enterprises. • Increased access to climate-oriented SMEs
12	What are the return expectations for this strategy / for FSD Africa's investment?	The expectation is that the fund will be managed profitably for investors. The fund manager should highlight what can be delivered in terms of return in their proposal
13	Please clarify what "permanent equity capital" means in the following context "The first tier of capital will be permanent equity from development agencies, philanthropic investors, foundations, etc.". Is it expected from DFIs, etc. to provide capital as part of an evergreen fund?	The permanent equity capital will be equity investment from DFIs and similar types of investors and will not have a defined tenor. The other tiers of capital are expected to have tenors. The evergreen nature of the fund will be based on the fact that (i) the fund will issue debt notes in tranches (ii) investors can exist through sales because the debt notes will be listed
14	Please clarify FSD Africa's expected contribution amount as part of first tier of capital, and potential additional investors that FSD Africa may bring as part of the target USD 100m first closing.	FSD Africa will potentially invest 5% as equity for the first close. The fund Manager is also expected to make an equity contribution in the fund and actively fundraise from domestic institutional investors. While FSD Africa will support the fundraising, the Fund manager is expected to take the lead and responsibility for this workstream. The fundraising strategy should be included in the proposal.
15.	Will the fund manager be selected as part of a 1-step process, or what would be the process after the tender submission?	FSD Africa will award a contract for phase 1. Contracting for phase 2 will be subject to appointment by the SME debt fund board upon completion of phase 1.
16.	By when would you expect to have the Fund incorporated? And by when would you expect to hold the First Closing?	We expect that the fund will be incorporated and registered with the relevant regulator by December 2024. We anticipate that the fund will be launched by March 2025
17	Is FSD Africa expected to participate in the fundraising efforts? Or is it the expectation that the selected fund manager will use its network and resources to raise the indicated capital?	The fund manager is expected to leverage its network and resources to raise the indicated capital. FSD Africa will be available to support in the fundraising efforts where necessary.

18.	Is the timeline for tender submission flexible?	We would be keen to work with the current submission timeline given that there are other processes dependent on completion of the RFP.
19.	Please confirm that selection as the pre-set-up adviser would not disqualify a bidder from being selected as the post-set-up fund manager.	No, selection as the pre-set-up adviser would not disqualify a bidder from being selected as the post-set-up fund manager.
20.	Is there a prescribed format in which FSD Africa would like the proposal submitted to facilitate the comparison of bids (e.g., the World Bank format)?	There is no prescribed format. The fund manager is free to work with their own template.
21.	Has the quantum of financial sponsorship by FSD Africa been decided yet?	FSD Africa will potentially invest 5% as equity for the first close.
22.	Has a feasibility study been conducted for the proposed fund? If so, when will the bidders be given access to it?	A scoping study was conducted for the proposed fund, the team is finalizing the report, and it will be shared at a later date.
23.	Is FSD Africa able to share a report on the stakeholder engagement mentioned in Paragraph 4 of page 2 of the request for proposal?	The team is finalizing the report, and it will be shared at a later date.
24.	The TOR is not clear if there are separate technical and financial proposals to be submitted for each phase. Please confirm.	The fund manager should submit only one proposal. The proposal should have separate sections on pre-set-up and post-set-up phases. The financial proposals for each of the phases can be captured under respective sections.
25.	Can an advisory firm and a fund manager form a consortium to respond to the tender? Will a fund manager be conflicted in Phase 2 if they support an advisory firm in Phase 1?	<ul style="list-style-type: none"> • Yes, the fund manager can form a consortium with an advisory firm. • No, the fund manager will not be conflicted.
26.	Who will provide the fund with a technical assistance facility? What will this TA include?	See response to question 4 above.
27.	Which fundraising strategy are you referring to? Is it for the first close of equity or debt?	The fundraising strategy should cover the entire capital stack. The fund manager's proposal should outline a strategy on how they intend to raise both equity and debt portions of the capital stack.

28.	What is the minimum funding required to set up the fund? Is it the first close of equity and mezzanine financing or the entire USD 100 Million?	The fund manager will be free to advise on the minimum requirement for fund set-up.
29.	Would it be possible to extend the deadline for submission by 2 weeks to allow more time to prepare a comprehensive response?	We would be keen to work with the current submission timeline given that there are other processes dependent on completion of the RFP.
30.	Could you share background documents such as the concept note of the SME fund and the feasibility study informing the setup of the fund?	Other relevant documents will be shared with the fund manager at a later date
31.	Could you share insights/notes or minutes of the SME roundtable held last month?	The team is finalizing the report, and it will be shared at a later date.
32.	On the envisioned fund operations, what informs the split of the direct/ indirect lending to SMEs and intermediaries?	The split of the strategy is to maximise the efficiency and impact of the fund and to ensure comprehensive coverage of the addressable market. .
33.	Are there other sponsors already identified at this stage or should we take it that FSD Africa is the only sponsor of the proposed fund at this stage?	FSD Africa is the only sponsor of the proposed fund at this stage. Other sponsors may be on-boarded over time.
34.	Should respondees prepare a budget for the technical assistance facility to be used to support investees? Will the mandated manager have to raise this TA funding or this will be provided by FSDA?	Yes, the bidders are welcome to suggest the structure, size and deployment of the TA.