TERMS OF REFERENCE

MARKET ASSESSMENT ON THE NEED FOR INNOVATIVE AND SUSTAINABLE FINANCING INSTRUMENTS FOR SMALL AND GROWING BUSINESSES IN SOLID WASTE MANAGEMENT, REGENERATIVE AGRICULTURE & CIRCULAR AGRIBUSINESS AND RENEWABLE ENERGY SECTORS

1. INTRODUCTION

Financial Sector Deepening Africa (FSD Africa) wishes to appoint a consultant firm or a consortium to carry out a market assessment to identify, analyse and evaluate the opportunity to deploy innovative, sustainable financial mechanisms to address the financing needs for small and growing businesses (SGBs) in the solid waste management, regenerative agriculture, and productive use of renewable energy (PURE) sectors in Kenya, Uganda, and Ethiopia. The selection of countries and sectors for the feasibility study aligns closely with FSD Africa's focus countries and green plus strategy.

The assignment is expected to begin in October 2024 and run for a period of up to 12 months.

2. BACKGROUND

The importance of small and medium enterprise (SME) in economic development is widely recognised. However, what is understood by the term can cover a very broad range - from survivalist activities with minimal potential for growth through to high growth start-ups with ambitions to define and dominate new markets. Encompassing enterprises with such widely differing potential and needs, the term is rarely instrumentally useful. The notion of small and growing businesses (SGBs) seeks to focus attention on the dynamic - those SMEs which have the prospects and ambition to realise significant change.[1] Within the scope of SGBs there is still considerable diversity across dimensions such as market potential, rates of growth, capital intensity, technological sophistication and maturity. A key differentiation needs to be made between the high-risk, game-changing ventures which attract much excitement (and sometimes venture capital) and businesses which expand more slowly, taking fewer risks, building capabilities over time and innovating in smaller steps. While often receiving less attention, the latter have potentially significant impacts, enabling growth to be achieved in more resource constrained environments, scaling through replication, increasing competition and filling key niches essential to sectoral development.

Green economic transition is both an imperative to sustain economies and livelihoods in the face of climate change and an opportunity to accelerate inclusive growth. This study is based on three core premises: (i) small and growing businesses (SGBs) can be key change agents in the transition process, (ii) impact at a sectoral level may require a combination of both faster and slower growing businesses and (iii) achieving the impact potential of SGBs requires financing solutions which are aligned with the specific growth processes in these businesses. Examining the specific opportunities for a spectrum of SGB growth pathways in three key transition sectors will lead to a more nuanced understanding of the financing needs and prospective solutions. The focus here is on how these growth pathways can be financed. While working capital and asset financing are anticipated to be an important part of the puzzle, typically longer-term investment is required to enable the development of firms. This is widely understood for faster growing firms which commonly invest in

[1] Small and growing businesses (SGBs) were originally defined by the Aspen Network of Development Entrepreneurs as commercially viable businesses with 5 to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from $20,000 to $2 million.

experimentation (including 'learning-by-failing'), iterative product development and research. But even slower growing firms replicating proven solutions need to invest in learning-by-doing and building human skills to develop the capability to profitably deploy new production technologies, expand into new markets or create new products and services.

Poor waste management leads to environmental pollution, urban flooding by blocking drainages (particularly solid waste), negative impact on health, productivity, and economic growth. Climate-proofing infrastructure for waste management facilities should be a priority for developing countries. However, the improvement of waste management facilities and equipment has been hampered by several factors like supply chain issues, having the right machinery needed for a specific job, and low or lack of needed financing.

Agriculture is an essential part of the Kenya, Uganda and Ethiopian economies. Agriculture directly contributes to 25% of Kenya's gross domestic product (GDP) and accounts for 65% of Kenya's export earnings. In Uganda, agriculture accounts for about 24% of GDP and 35% of export earnings. The Uganda Bureau of Statistics estimates that about 68% of Uganda's working population is employed in agriculture. In Ethiopia, Agriculture accounts for 32% of its GDP. Given the significant contributions of agriculture both to gross domestic product and to the livelihoods of the farmers in these countries, there is a need to incorporate sustainable practices such as regenerative agriculture and circular agribusiness. Regenerative agriculture and circular agribusiness practices will help facilitate improved crop yield and quality and greater resilience to climate change. This will ensure the continued viability of agriculture and enable the farmers to continue leveraging agriculture for their livelihoods. In addition, it may open new green revenue streams for farmers from carbon markets. Regenerative agriculture however remains nascent in all three countries partly because of financing challenges.

Productive use of renewable energy (PURE) entails expanding access to renewable energy in areas that help generate more revenue for communities. PURE has the potential to boost clean electricity use, support low-carbon economic growth, create employment opportunities for growing youth populations and increase income for communities. PURE can serve as a catalyst for socio-economic development as well as an enabler of sustainable living.[2] Kenya, Uganda, and Ethiopia all have significant renewable energy production/or potential, including solar, geothermal, wind, hydro, and biomass. Even with the increasing energy demand, PURE remains minimal in these countries with investment being among the barriers to accessing adequate financial resources by SGBs and entrepreneurs operating in the sector to support technology adoption, infrastructure development, and operational expansion. Addressing this deficit is crucial for fostering the development of the renewable energy sector and achieving sustainable energy access goals in the countries.

In all three sectors preliminary indications suggest that there are projects which are potentially commercially viable but fail to attract investment. There are a number of candidate explanations. Investment in Africa is adversely impacted by macroeconomic factors (notably interest rates, forex volatility), uncertainty and risk and transaction costs. In nascent sectors such as waste management, regenerative agriculture, circular agribusiness, and PURE, there is necessarily an elevated degree of intrinsic uncertainty. High transaction costs, usually characterised by substantial fixed elements, can render the smaller-sized deals needed by SGBs problematic. The corollary is that both commercial and impact investors/DFIs prioritise SGB investment opportunities with prospectively very high financial or direct development impact potential to compensate for the risk and costs. This excludes the slower-growing SGBs, which in some instances – notably where markets are highly fragmented – may represent a more realistic development pathway. Finally, viability may be constrained at a sector level by limited or absent public sector or long-term impact financing of

[2] Climate Policy Initiative

supporting investments (such as infrastructure) which are significantly beyond the financial market frontier.[3]

2.1. FSD Africa

Established in 2012 and supported by UK aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across Africa. FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded Foreign Commonwealth and Development Office (FCDO) from the UK government. We provide tools and resources to drive large-scale change in financial markets and support sustainable economic development. We address financial market failures to bring about growth and opportunity. Our business is to help create a sustainable future for Africa's people and its natural environment. More information on FSD Africa is available here.

3. OBJECTIVES AND SCOPE

3.1. Objective

The overall objective of this assignment is to identify potential sustainable solutions to address the financing gaps identified for small and growing businesses (SGBs) in the solid waste management, regenerative agriculture & circular agribusiness, and PURE sectors. It will include provision of insights into how the proposed financing instruments could mobilize domestic and international capital for SGBs in the target sectors within the respective geographies.

3.2. Scope

The scope of the assignment will inter alia cover the aspects defined below. The final report will include an implementation plan that will capture prioritisation, sequencing and coordination required to enable/accelerate scalable solutions at a systems **level**, for the defined financing ticket sizes of between USD 50,000 to 2 million for each of the sectors.

3.2.1. Sector mapping and analysis

a) **Carry out a detailed review of relevant research, studies and data sources** to build sufficient understanding of each of the three target real sectors in the three countries. This review should encompass building an overall basic understanding of the economics and technologies which drive business models and industry structure, taking note of relevant indivisibilities (leading to scale economies), key ecosystem supports (notably in the form of skills, services and infrastructure) and regulatory frameworks. Using the framing developed, a situational analysis will be undertaken of each of the three sectors in the three markets. It will specifically analyse the high-level implications for the role of SGBs in the development of the target sectors and provides an initial test of the premise that SGBs do have an important role here. This market assessment should build on the work done to date and is not envisaged to require primary research.

b) **Map the stakeholders in the three sectors in the three countries**, including SGBs, policymakers and other relevant parties – especially funding partners (philanthropies, foundations, bilateral donors and DFIs) who may be willing to collaborate to increase funding for the sectors under review. This will include identifying current or potential sources of concessional finance and whether these are targeted at developing sustainable, scalable

[3] Typically, where the investment is required in a sectoral public good, time horizons are necessarily very long or private investment is undermined by high externalities, difficulties in realising revenues or excessive uncertainties.

market solutions. In the waste management sector, particular focus will be on stakeholders involved in managing plastic, textile, and electronic waste, which are significant contributors to environmental pollution and public health hazards.

c) **Review relevant initiatives within the sectors of interest** supported through philanthropic capital and other types of capital (especially in the target countries but elsewhere if relevant) and extract key insights, lessons, and best practices. The review will highlight successful strategies, challenges, and opportunities to understand the practical realities and complexities that can be anticipated when implementing the study's recommendations.

3.2.2. Role, opportunities and needs of SGBs

a) **Identify and describe SBGs operating in the three sectors** highlighting their current functional role within the sector and positioning relative to other market players. Drawing on the analysis above a preliminary analysis will be made of the opportunities for SGB growth, with a strong emphasis on the prospective contribution to accelerating sector development. The study will be strongly evidence driven. It is again possible that the underlying premise that there is a strong prospective role for SGBs in sector development within these markets is flawed. The assessment will also incorporate youth and gender-disaggregated data.

b) **Assess the needs of SGBs identified above using a case study approach**. Cases examined will be representative of the spectrum of SGBs relevant to the context. A comprehensive needs assessment will be required – encompassing financial and non-financial - focusing on what is required to achieve the prospective growth pathways for these SGBs (based on capacity, ambitions and market opportunity). Examining the growth histories of more mature, successful SGBs (if present in the market) could provide a valuable source of evidence on these needs.

3.2.3. Existing financing solutions and gaps

a) **Identify and describe existing financing solutions** being implemented financial intermediaries or organisations that have been shown to be effective in meeting any of the financing needs of SGBs and specifically meeting the investment needs relating to growth. A broad range of providers should be examined including commercial banks, development finance institutions, MFIs, private equity, venture capital and accelerators.

b) **Rapidly assess the supply of key non-financial** supporting services, infrastructure and regulatory functions necessary to SGB viability drawing on the background sector analysis and SGB case studies undertaken earlier.

c) **Determine the key gaps relating to both financing and non-financing needs** facing SGBs in the three sectors across each market. While the emphasis here will be on financing solutions it is vital to assess the extent to which other constraints may bind SGB growth and therefore investment. The presence of other binding constraints is likely to have strong implications for the structuring of viable investment solutions.

3.2.4. Prospective financing innovations and interventions

a) **Analyse the underlying barriers to the financing of SGBs** both broadly across the three countries studied and specifically with respect to the needs of the three sectors. This will examine the generic constraints (which could impede even short-term working capital financing) and the more specific challenges relating to the provision of investment finance for growth (typically equity and long-tenor debt), particularly for the defined ticket sizes of between USD 50,000 – 2million. Understanding why finance does not flow to prospectively viable opportunities is critical to the study. As noted earlier, barriers are anticipated to arise from macroeconomic factors, uncertainty and risk and transaction costs, but these and other possible factors need to be tested against the evidence collected in the study.

b) **Assess the incentives for financial system led solutions.** Understanding what both attracts and deters participants in the financial system from developing solutions to the financing problem will be crucial to identifying potentially scalable solutions. Multiple factors could be at play including (but not limited to): insufficient prospective upside to make the problem worth solving at all, lack of risk fit, limited market potential, coordination failure, lack of base institutional capacity to address the SGB market, incomplete risk markets and regulatory gaps or restrictions. The analysis must be grounded in the practical realities of the markets addressed and an understanding of the incentives and strategic perspectives of relevant financial system players. Context is crucial including aspects of the financial regulatory framework and the stance of regulators and policymakers. Again, conclusions must be strongly evidence driven. Sectors may remain too early-stage to credibly attract commercial investment in the near term necessitating considerable concessional capital to enable markets to emerge.

c) **Develop potential innovations and interventions to enable financing of SGBs in the three sectors** addressing the barriers identified and consistent with the incentives for players in the financial system. Two major directions will be explored: (i) innovations in structuring or delivery which could produce commercially viable solutions in the near term, and (ii) longer-term programmatic market building solutions. The latter addresses the need to combine multiple elements to create scalable solutions which might include elements such as testing and learning to create demonstration effects and diffuse uncertainty, building relevant skills and organisational capabilities, achieving scale and adapting the regulatory environment. Key will be to identify how the various forms of concessional capital available (from DFIs and other impact investors) could be deployed to tackle underlying financial market development challenges and achieve the greatest leverage.

d) **Conduct a market-sounding exercise among potential direct partners** and other investor groups (including impact investors, institutional investors such as pension funds, etc) highlighting their concerns and proposing potential mitigants. The viability of any innovation or intervention will be heavily dependent on the engagement of core partners and wider market receptivity.

e) **Assess and prioritise recommended market building initiatives** based on stakeholder feedback and analysis. The analysis of the prospective innovations or interventions will project potential impacts on mobilising capital, unlocking SGB growth and the impact on green economic transition. Based on these project outcomes, the public policy case for support can be assessed, extending beyond the deployment of development/impact capital to prospective long-term fiscal incentives.

4. METHODOLOGY

The consultant will be required to use relevant stakeholder engagement strategies such as key informant interviews or other relevant strategies to ensure comprehensive assessment.

FSD Africa appreciates that consultants may not possess expertise in all three sectors or have presence in all three countries. In this regard, where possible the consultants could submit bids as a consortium to ensure that they have adequate capacity and sufficient coverage.

With regards to the sector focus, FSD Africa invites the consultants to outline how they would focus their level of effort, which sector(s) would have more focus and why. This should be based on their sector expertise, including their knowledge of what has already been done.

Given the dynamic nature of the assignment, the scope of work may evolve during the duration of the project. Any changes to the scope of work will be agreed on by FSD Africa and the Consultant.

5. TIMELINES AND DELIVERABLES

Key deliverables	Key activities	Estimated completion*
Draft Inception/Portfolio review Report	▪ The draft inception report will cover a detailed review and impact assessment of programming and investment by philanthropies and other relevant investors including private equity and venture capital in SGBs across the three sectors and the three countries of interest. The consultant will be required to engage relevant stakeholders for example through key informant interviews or other relevant strategies to ensure comprehensive assessment. The scope of the inception report will be items outlined in section *3.2.1* in the detailed scope above	November 2024
Final Inception/Portfolio review Report	▪ This final inception report will incorporate feedback and input shared by FSD Africa	December 2024
Draft Market Assessment Report	▪ The market assessment report will entail a detailed assessment of the SGB landscape relating to, inter alia, gaps and challenges faced in accessing financing, quantification of the financing need and recommendation of potential innovative, sustainable financing instruments. The scope of the market assessment will cover all items outlined the detailed scope above	March 2025
Stakeholder validation Workshops	▪ This first round of workshops (one in each of the countries) will involve collecting feedback from stakeholders on the findings from the market assessment.	April 2025
Final Market Assessment Report	▪ The final market assessment report will incorporate feedback and input from the stakeholder workshops as well as that given by FSD Africa and IKEA Foundation	July 2025
Dissemination workshops	▪ The second round of workshops (one in each of the countries) will involve dissemination of the final report and will be held at the end of the market assessment.	August 2025
Other communication and dissemination activities	▪ This will involve engagements in conferences, seminars and other relevant events and activities to support the dissemination of the findings from the report.	August – September 2025
Preliminary engagement of potential partners	▪ Engagement of partners such as financial intermediaries and/or investors on the design of identified innovative, sustainable financing mechanisms. This will involve engagement of at least two potential partners in each country on potential partnership in designing an innovative, sustainable financing instrument.	October 2025

**The timelines provided above are indicative. Actual timelines may deviate from the above, subject to the agreement of FSD Africa and the Consultant.*

The consultant will be required to produce three country specific reports, for each of the reports expected under the deliverables. The country specific reports will have distinct sections for each of the three sectors.

The workshops, communication and dissemination activities will also be country specific and will be targeted to ensure engagement of the right stakeholders.

The Consultant is expected to execute the tasks under this scope of work within a period of 12 months from signing of the contract.

6. INVITATION TO SUBMIT PROPOSAL

FSD Africa is inviting proposals from suitably qualified individual consultants or consultancy firms.

Your proposal should contain:

- CV (maximum 3 sides of A4 paper each) of the consultant/key individuals tailored to the assignment.
- For consulting firms an outline of team structure, including roles and responsibilities of team members.
- A summary of relevant experience for the assignment.
- A short description of your understanding of the role of the Consultant and the approach to be used as outlined in these Terms of Reference.
- A description of how you intend to fulfil the Services within the suggested timeline and confirmation of your ability to meet the timelines.
- An itemised budget for both professional fees and reimbursable expenses, including fee rates, number of days and a breakdown of expenses.

Your proposal, which should not exceed 10 pages (excluding annexures), should be sent by email to FSD Africa at bids@fsdafrica.org by **10:00am, 21 October 2024 (EAT)**

7. BASIS OF AWARD

FSD Africa will award a contract to the Consultant based on the following criteria:

Mandatory requirements
Familiarity, experience, and expertise in carry out market assessments/feasibility studies and should have undertaken at least two similar assignments in the last 7 years.
Prior experience in the three sectors and countries (or jurisdictions with a comparable context in SSA) of focus in the study.
Demonstrated experience/expertise in curating financing instruments or mechanisms.
Consultant must have relevant academic and/or professional qualifications.
Capacity to deliver on the assignment and engage intensively with the assignment with a view to conclude the work within the stipulated timelines
Demonstrated understanding/interpretation of the task set out in the TORs.

Assessment criteria		Weighting (%)
Experience	Familiarity, experience, and expertise in carry out market assessments/feasibility studies	30%
	Prior experience in the three sectors and countries of focus in the study.	
	Demonstrated experience/expertise curating financing instruments or mechanisms.	

Assessment criteria		Weighting (%)
Methodology	Demonstrated understanding/interpretation of the task set out in the TORs. The consultant should clearly outline their proposed methodology for the assignment.	25%
Ability to engage with the assignment	Demonstrated capacity to deliver on the assignment and engage intensively with the assignment with a view to conclude the work within the stipulated timelines. The consultant's bid should include a stakeholder engagement plan and a project management plan to ensure delivery of the scope of work set out in the TORs within stipulated timelines	15%
Most economically advantageous.	Fee basis and total costs will be computed as follows: FS = 30% x LB/BP where: FS is the financial score LB is the lowest bid quoted BP is the bid of the proposal under consideration. The lowest bid quoted will be allocated the maximum score of 30%. **Fee quoted must be inclusive of applicable withholding tax**	30%
	Total	**100%**

**Documentary evidence must be furnished against each of the above criteria.*

8. CONTACT

Questions or comments in respect of these terms of reference should be directed by email to: bids@fsdafrica.org and be received no later than **10:00am, 14th October 2024 (EAT)**. Responses and clarifications will be provided by **12:00pm, 16th October 2024 (EAT)** through the same advertisement channels.

9. APPLICABLE TAXES

As per Kenya's tax law, FSD Africa will pay the Consultant after withholding the appropriate taxes at the applicable rate between Kenya and the Consultant's country of tax residence, considering any tax treaties in force. It is the responsibility of the Consultant to keep themselves apprised of these applicable taxes. The below table, however, provides guidance on the applicable rates as per tax regimes.

Country	WHT Rate
Kenya	5%
United Kingdom	12.5%
Canada	15%
Germany	15%
Zambia	20%
India	10%
Non-resident rate for citizens of EAC member countries	15%
All other countries	20%

Annex 1: Proposed Fee Schedule

Costs should be shown separately in the format set out below. Fees proposed by tenderers should be inclusive of all taxes. (USD/GBP)

Consultancy fees*	***Days***	***Fee per day***	***Total***
xxx	***x***	***x***	***x***
xxx	***x***	***x***	***x***
xxx	***x***	***x***	***x***
Total remuneration before taxes			***0.00***
VAT (%)			***0.00***
Total fees inclusive of taxes			***0.00***
Reimbursement costs**	***Unit***	***Cost***	***Total***
xxx	***x***	***x***	***x***
xxx	***x***	***x***	***x***
Total reimbursement cost			***0.00***
Total proposed costs			***0.00***
**Fees incl of all taxes* ***Expenses to be reimbursed on actual costs as per FSD Africa's travel policy*			