TERMS OF REFERENCE FOR SELECTION OF THE GREEN INVESTMENT FUND (GIF) FUND MANAGER

1. INTRODUCTION

Kenya Development Corporation (KDC) is looking to engage an experienced Fund Manager to take charge of the daily management and administration of a proposed Green Investment Fund (GIF) in Kenya. The selected Fund Manager will work in partnership with KDC, the Ministry of Investments, Trade and Industry and the World Bank (WB) - the fund's sponsor, to operationalize the GIF. This will involve developing and implementing the investment process and creating the appropriate frameworks to ensure the fund's successful operation and strategy implementation.

2. ABOUT KDC

KDC is a national Development Finance Institution in Kenya established to promote sustainable economic development by providing development finance, infrastructure finance, business support and advisory services to medium and large-scale industries, infrastructure projects and commercial undertakings in target sectors in Kenya and elsewhere. One of KDC's primary functions is to establish or participate by way of joint ventures, private equity or otherwise assist in the establishment of undertakings of private or public nature. KDC provides venture capital, seed capital and risk capital for the development of high impact undertakings.

Headquartered in Nairobi, KDC collaborates with the Government of Kenya, development partners and policymakers to drive positive economic, social and environmental outcomes. Established in 2021 following the merger of Industrial and Commercial Development Corporation, Tourism Finance Corporation and IDB Capital, KDC is incorporated as a company limited by shares wholly owned by the National Treasury and Economic Planning. For more details about KDC, please visit https://kdc.go.ke/

3. BACKGROUND

The Government of Kenya aims to boost its development trajectory through mobilizing private capital, focusing on the interlinkages between sustainable development goals, climate change and the empowerment of Small and Medium Enterprises (SMEs). Given the crucial role that small and medium enterprises play both in the economic landscape of Kenya and in the context of climate change adaptation and mitigation, there is a significant demand for innovative financial solutions. The World Bank and the Government of Kenya through KDC are seeking to establish a blended finance green investment fund to invest in green SMEs in Kenya.

Whereas there is a clear need to mobilize capital into green SMEs in Kenya, the supply of equity in the market especially for green investments is severely lacking. The GIF seeks to fill this gap by crowding in private capital to green investments. The proposed fund will target investments from development finance institutions, local and international private investors in addition to the KDC's capital contribution. Blended finance could help account for externalities generated by green investments and offer valuable demonstration effects and de-risking for private sector investors who may be less familiar with investing in green projects in Kenya.

4. GREEN INVESTMENT FUND

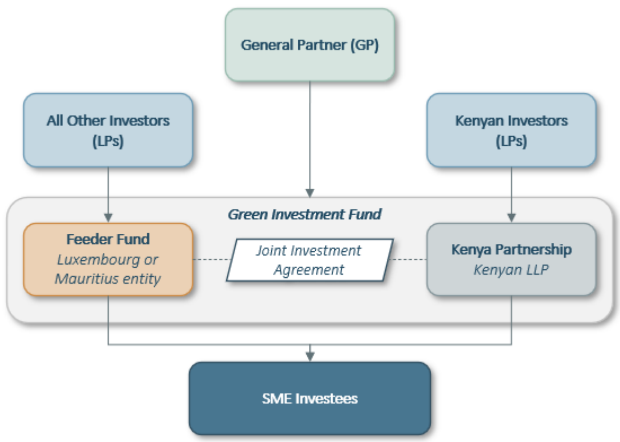
The GIF will be set up in Kenya. The fund will focus on investments that contribute to climate mitigation and adaptation that are aligned with Kenya's Nationally Determined Contributions (NDCs) and other climate goals.

In December 2023, the World Bank approved the Kenya Jobs and Economic Transformation project ("KJET") to benefit at least 45,000 Kenyans, including at least 6,800 women through new or improved job opportunities. Under Component 3 of the project, the World Bank aims to provide US$ 40 million to Kenya Development Corporation ('KDC') to help establish the GIF. The GIF aims to provide risk-adjusted, long-term, patient capital, including equity and mezzanine financing, to green and greening MSMEs. Private sector investors, IFIs and domestic institutional investors – including local pension funds, collective investment schemes and insurance companies – will be invited to contribute funding to the GIF. The GIF will be managed by an independent, competitively selected Fund Manager (or 'Manager'). Based on an initial feasibility study and market consultations, the following features have been proposed for the GIF, which should be considered in proposals submitted by fund managers where feedbacks and suggestions are sought:

a) *Fund size*: Through the KJET project, Government of Kenya through KDC is seeking to invest USD 40 million into the GIF. The GIF aims to crowd in other investors, with a targeted fund size of US$ 100-160 million

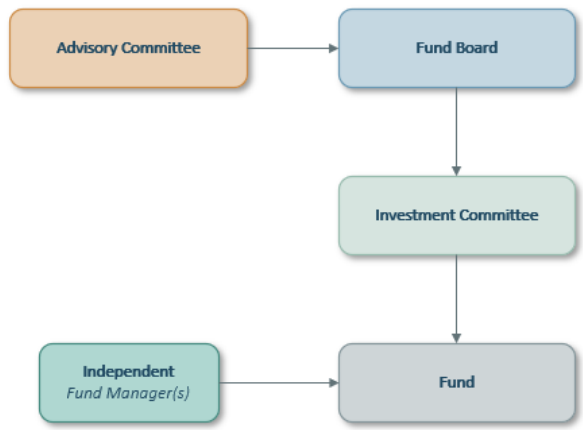
b) *Legal form and domicile*: The Fund will be a multi-currency structure domiciled in Kenya targeting investments in Kenya, with a hybrid structure with an overseas feeder entity. It is envisaged thar this hybrid structure will combine a Kenyan LLP with an offshore (Mauritius or Luxembourg domiciled) entity to facilitate investment by both international and local investors. Under this structure, there will be a General Partner (GP) who will act as the Fund Manager, and Limited Partners (LPs) who will be both Kenyan and offshore investors. The Fund will have two classes of equity; the first tier of capital will be junior equity from KDC with a capped return and the second tier of capital which will be senior equity will be raised from other DFIs, agencies and investors.

Figure 1: Hybrid structure: LLP with Feeder Fund



c) *Fund management and governance*: A proper governance framework (Figure 2) is vital to the success of the GIF, including the independence of the Fund Manager and the Investment Committee. The GIF will be managed by an independent, competitively selected Fund Manager that this ToR is seeking for and will be regulated under the Capital Markets Authority, Kenya and/or a competent regulatory authority from another jurisdiction. The GIF will have an Investment Committee composed of private sector representatives with significant experience in private equity and alternative investments funds, alongside strong climate and environmental expertise. The Fund Board will provide oversight over the management of the Fund, ensuring compliance with corporate governance practice and the regulatory regime. It will be comprised of GP and LP representatives (including KDC and other institutional investors). Lastly, the Advisory Committee advises the Board regarding conflicts of interest and other management issues, in addition to advice on key policy issues and consists of selected representatives of LPs, in addition to representatives named by KDC (such as per the request of the GoK and/or World Bank).

Figure 2: Fund Structure



d) <u>*Structuring considerations*: </u>As discussed above, GIF will operate as a hybrid structure comprising a Kenyan LLP and an offshore (such as Mauritius- or Luxembourg)-domiciled 'feeder fund', facilitating the participation of both local investors, who would prefer an onshore structure, and international investors, who are more likely to invest in an offshore structure. Under a Joint Investment Agreement, these two structures will invest pro rata in each investee. This is a for-profit structure whereby returns are divided among the LPs pro rata according to their relative capital contributions to the relevant vehicle, yet the blended sources of funding would allow asymmetric returns. The Fund will have two classes of equity:

- <u>A-Shares: </u>This will be a junior class of equity whose returns will be capped at 8 percent. KDC (and other potential impact investors) will subscribe for these shares.
- <u>B-Shares: </u>This will be a senior class of equity. It is expected to attract subscription from other institutional investors

e) *Investment*: GIF will invest in greening MSMEs or in green MSMEs as defined in Box 1 below. The Fund will focus mostly on direct equity and mezzanine investments in Kenya. The investment strategy for the GIF will prioritize support to women-owned/led businesses and will also encourage a broader definition to promote gender equality[1]. The Investment Committee will determine whether a business could be supported by GIF, following a clear Investment Policy Statement and Green Investment Framework, which will be developed in close consultation with relevant stakeholders and climate experts. The definition and eligibility criteria may be updated over time, for example, to align with any future national green taxonomy or new priorities under the NDC.

Box 1. Key definitions

'Greening' MSMEs: MSMEs in any sector that have concrete decarbonization and/or adaptation plans, which are aligned with Kenya's NDC and other climate goals. These companies' policies and investments will support them to decarbonize their activities and adapt to climate change impacts.

'Green' MSMEs: Any MSME established to develop or invest in activities that contribute to climate mitigation and adaptation/resilience. Climate mitigation promotes efforts to reduce, limit, or sequester GHG emissions. Climate adaptation refers to activities that are carried out in response to current or expected climate change impacts. In some cases, climate adaptation is embedded into a broader investment (e.g., wider drainage channels, heat resistant transmission lines, climate-resilient roads, elevated facilities). In other cases, the investment is a climate adaptation measure (e.g., flood protection barriers, rainwater harvesting tanks, rehabilitation of irrigation canals).

MSMEs: According to the MSME Act (2012), MSMEs are enterprises that have 1-99 employees. Micro enterprises have less than 10 employees, small enterprises have 10-49 employees, and medium enterprises have 50-99 employees (Kenyan definition); The

[1] Such as workforce, supply/value chain, products and services, in addition to ownership and leadership

private sector definition in African PE markets is MSMEs with revenues/asset base of <US$10 million and a total employee count of <250 people, with a strong management team and potential to generate significant returns for investors, which is in line with IFC definition.

f) *Fund life*: The Fund is designed to have a longer life to allow patient capital (e.g. a long fund life, e.g. 15-year life with a 10-year investment period (with a possibility for a 2-year extension).

g) *Instruments and Ticket Size*: The Fund will invest through equity and flexible quasi-equity instruments to target investees. In any case, a key requirement for the relevant instruments would be that they follow the relevant market standards and principles. The Fund shall invest predominantly in growth-stage businesses targeting tickets within the range of US$2 million to US$6 million.

h) *Currency*: The Fund is likely to be a local currency facility, though it is envisaged that investors in the feeder fund will channel funding in hard currency. This means that they need to be comfortable with KES-denominated investments.

i) *Target sectors:* MSMEs which fall under the universe of green investments (Box 1) shall be considered eligible for funding. However, selected priority sub-sectors – underpinned by their potential for high growth and transformative impact – include transport (electric vehicles), energy and material efficiency ('green' buildings), environmental resources (sustainable agriculture such as climate smart agriculture) and waste management (for instance, firms with an emphasis on circular economy principles).

j) *Geographic focus:* The Fund shall focus its investments into companies which are either based in Kenya or into companies with investments in Kenya and/ or the East African Community, even though it will be seeded by the GoK, as Kenya is a regional hub that acts as a base for many green MSMEs seeking to expand across the region.

k) *Monitoring and evaluation:* Continued active involvement will be maintained through various means, including board oversight, which ensures strategic direction and accountability as well as filings with the Regulator. Regular performance assessments will be conducted, focusing not only on financial metrics but also on 'green' impact measures (see Key feature 14 on proposed reporting metrics). Additionally, adherence to compliance and governance standards will be rigorously upheld to ensure that all operations align with the required legal and ethical frameworks.

l) *Fund investors:* Potential investors in GIF may include pension funds, collective investment schemes, insurance companies, Development Finance Institutions (DFIs), sovereign wealth funds, impact investors, foundations and other institutional investors.

m) *Risk management*:

- *Political and Economic risk:* Fund Manager, overseen by the Risk Committee of the Board, will undertake detailed due diligence on each investment which includes an assessment of country (i.e., both economic and political) risk.

- *Strategic risk:* The Fund will also put in place strategies, systems, and procedures to minimize its exposure to adverse economic, regulatory and political conditions. Additionally, the Manager will be vigilant towards strategic risks and will actively engage and attempt to mitigate identified issues, as well as share them with the Investment Committee and Advisory Committee to inform them and seek guidance on highlighted issues.

- *Operational risk:* The Fund Manager shall take measures aimed at mitigating risks to the Green Investment Fund operations including employee deficiencies and shortages, fraud, inefficient processes and documentation, weak internal controls, inappropriate and outdate sdystems and natural disasters.

- *Green mandate delivery risk:* The Fund Manager shall ensure that the Fund is mandated to invest a specified percentage of its resources towards climate change mitigation and adaptation. The Fund's investment policy shall recognize the need to scale up both mitigation and adaptation efforts and minimize trade-offs between adaptation and mitigation.

- *FX risk:* The Fund Manger shall spell out his strategy for mitigating investors from foreign exchange exposure including accepting mixed currencies as capital and hedging strategies.

- *Greenwashing risk:* The Fund Manager shall put in place an operational framework that accounts for the need to substantiate sustainability claims throughout the Fund's lifecycle.

- *Pipeline risk:* The Fund will mitigate pipeline risk by positioning itself as a co-investor of choice in the 'green' SME space in Kenya, hence leveraging other investors' pipelines.

- *Diversification risk:* Given that the Fund will have single country exposure and will focus on MSMEs in the identified 'green' sectors, the investments of the Fund could become highly concentrated. The Fund Manager will actively ensure that the eligible sectors for investment are sufficiently broad to allow for diversification.

- *Exit risk:* The Fund Manager shall ensure that there are several exit options spelt out as soon as the general partners are onboarded with advantages and consideration including Initial Public Offering (IPO), Secondary Sale, Recapitalization and Management Buyout. Further mitigation and compensation for delayed exists including the set up of a continuation fund will be considered by the Fund Manager, if need be.

- *Conflict of interest risk:* The Fund Manager shall take measures to mitigate conflict of interest at fund raising, investment, management and exit stages, through effective and transparent compensation arrangements, contractual agreements, disclosure, consultations with the Investment Committee and compliance with existing market conduct regulations relating to conflict of interest.

n) *Reporting requirements:* To the extent possible, the Fund shall follow international standards for ESG reporting and disclosures at both the portfolio and investment level, measuring and monitoring the impact of investments throughout the investment period to avoid greenwashing. For investments which contribute to climate mitigation, the GIF will work with investee companies to assess ex-ante and ex-poste emission reductions that result from activities financed by the Fund. The carbon emissions reductions potential will therefore be estimated and subsequently tracked over the course of the investment period. For investments which contribute to climate adaptation, relevant KPIs shall be assigned based on the climate shock which the investee company intends to address. Additional overall key performance indicators could include (i) Number of firms participating in GIF financing, (ii) Number of Investment Funds co-investing in or with GIF to support MSMEs implement green investments, (iii) Private capital mobilized (PCM) through project interventions.

o) Operating costs: Operating costs (including management and administration fees) shall be paid upfront from the drawdowns. Fund's initial establishment costs are expected to be covered by KDC and included as part of its contribution to the Fund and will be equalized at final close by all LPs. It is expected that the Fund Manager will cover staff costs from within the Fund management fee, with a step-down in the post-investment period. Certain costs relating to services provided directly to the Fund (e.g., accounting, tax, and legal advice) will be recoverable from the Fund.

5. OBJECTIVE

The GIF's objective is to bridge the financing gap through a blend of public, private and development finance institutions contributions to support green initiatives among the SMEs in Kenya.

6. SCOPE OF WORK

The Fund Manager's role is expected to be multifaceted, involving formalizing the GIF's structure and preparing it for submission to the Regulator for registration and approval, direct engagement with companies, market sounding, collaboration with other investors, and maintaining a high standard of oversight and expertise. Additionally, the Manager must perform rigorous due diligence, manage risks effectively, and strategically manage the portfolio to ensure that both sustainability and financial objectives are achieved. Indicative activities by the Fund Manager are set out in the following paragraphs, and the final scope of work should be set out in the fund management agreement and or other similar legal documents to be signed among investors or GIF and the appointed fund manager.

- *Fund raising and investor collaboration*: The Manager should seek out and participate in collaborative efforts with other investors to raise fund to capitalize GIF and to strengthen their collective influence on climate goals with green MSMEs. The Manager is responsible for reporting on the nature of these collaborations, their role within them, the companies involved, and the impact of these engagements.
- *Investment and Portfolio Construction:* The Manager is expected to conduct thorough due diligence when researching investment opportunities including analyzing companies, meeting with management, and understanding the financial industry and economic environment to select securities that offer the best return on

investment. The Manager must have strategies in place to manage and minimize investment risks. Lastly, the Manager must decide how to allocate assets among various investment types, selecting individual securities, monitoring their performance, and rebalancing the portfolio as necessary to maintain the desired asset allocation and risk profile.

- *Engagement with investee companies*: The Manager must actively engage with all companies they invest in to assess their progress towards climate and financial goals. This involves a detailed evaluation to ensure these companies are on track to meet the desired outcomes. The findings from these assessments must be reported to the KDC and LPs to maintain transparency about the investment's climate performance.
- *Senior level oversight and expertise*: It is crucial for the Manager to ensure that there is senior-level oversight of the investee companies. The Manager must also have or develop in-house climate expertise to monitor the companies effectively and provide valuable insights. Details of these oversight arrangements and expertise should be disclosed to the Investment Committee for accountability.
- *Ensuring regulatory compliance:* This includes being prepared for regulatory scrutiny and audits.

7. TECHNICAL PROPOSAL

Proposals are invited for a qualified fund manager to take on management of the GIF. The Board of Directors will appoint the Fund Manager to execute the agreed investment strategy. This strategy should ensure that the fund consistently adheres to its licensing requirements and has the appropriate systems and controls to implement the strategy profitably in line with the vision of the sponsors and investors.

The scope of the assignment will encompass the following:

1. Provide a proposal on a viable business model for the fund.

2. Give an assessment of a proposed investment strategy, including a strategy for developing a pipeline of investment opportunities for the fund.
3. Outline how the Fund Manager intends to implement the proposed investment strategy and manage the fund profitably.
4. Present and implement a proposed fundraising strategy targeting foreign and domestic institutional investors.
5. Offer preliminary views on the structure of the GIF and suggest input based on market insights and investment strategy.
6. Prepare the GIF for formal registration, approval and licensing by the Regulator (s).
7. Detail how the Fund Manager plans to utilize available technical assistance to help the fund achieve its objectives.
8. Describe how the Fund Manager will embed and implement sustainability and impact frameworks including periodic impact evaluation and reporting.
9. Propose impact and sustainability metrics for the fund.
10. Outline proposed internal governance and risk management approach.
11. Outline the proposed approach, methodology, next steps, timelines and key milestones for launching the fund.
12. Identify any strategic constraints that need to be addressed to improve operationalization.
13. Provide a detailed and specific description of the support required from the fund sponsors to successfully operationalize the fund.

Interested fund managers are encouraged to submit their proposals in PowerPoint format in **no more than 50 slides**.

In addition to feedback on the mandate discussed above, the proposal should also highlight the key strengths and notable experience of the relevant fund manager that would qualify it for managing the Fund, including relevant supporting documentations. The shortlisted fund managers may expect additional questions around the mandate, firm, team, investment process, portfolio construction, trading, risk management, etc. as this process advances.

8. APPLICATION REQUIREMENTS

In addition to the specific requirements indicated the Technical Proposal above, the proposal should contain the following:

a) The firm should have an international reach and must demonstrate experience in undertaking significant and similar assignments and commitment to green finance objectives.
b) The firm must have good knowledge of Kenya's and East Africa's public and private investment markets, SME and green financing, investment analysis, valuations and portfolio management. Where the Fund Manager is a global/international firm, it must partner with a regulated Kenyan (domestic) Fund Manager
c) The firm must have the capacity to engage with relevant stakeholders, including government agencies, development partners and industry players.
d) To demonstrate their understanding of this scope, firm should include relevant examples of solutions that inform how the fund would be implemented based on experiences in other markets.
e) A description of firm's history, ownership and organizational structure including details of relevant regulatory licenses to perform fund management functions.
f) The firm must be in good financial standing, as supported by its financial statements.
g) A confirmation of licensing to offer the required services in Kenya or have a credible path to obtaining such regulatory approval.
h) A brief background of the proposed team that will manage the GIF.

i) Demonstrated experience of successful market sounding and closing of fund raising deals with institutional investors
j) Previous experience in managing an SME or similar funds in Kenya/East Africa – This should include details of the fund including the investment team and the fund's performance
k) Any past/ongoing material litigation, regulatory, legal proceedings or sanctions in which the firm or its key employees/leadership have been involved in the last five years.
l) Statement on the avoidance of conflict of interests, including with other funds managed by the firm.

The successful Fund Manager's overall contract duration is estimated at one year, and any extension beyond this period will be subject to satisfactory performance against well-defined Key Performance Indicators (KPIs).

Note: Fund managers not in compliance with relevant regulations and/or do not have relevant Kenyan or East African private markets experience and /or are unable to form partnerships/joint ventures with a licensed and regulated Kenyan Fund Manager will not be considered, and the fund manager will only proceed for further considerations if 'first stage clearance' is granted.

9. FEES AND SCHEDULE

The remuneration proposal should contain the proposed fee, compensation structure and a performance/profitability analysis.

10. EVALUATION CRITERIA

The proposals (technical and financial) should be presented separately in the submissions as this will be the basis of the evaluation. Proposals will be evaluated based on:

a. **Relevant experience and qualifications to the scope of work.**

- *Adherence to the stated Fund mandate and ability to deliver the Fund strategy: This will include examining a potential Fund Manager's experience, track record in similar investments or markets, and capability in deal origination, including the Fund Manager's relevant expertise in Kenya or another East African market, in green investments, and in the MSME sector.*
- *Have business and financial models rooted in African SME realities: This includes an understanding of the economic, cultural, and regulatory landscape in which these MSMEs operate. The Fund Manager should ensure that the Fund's models account for factors like currency fluctuations, political instability, varying levels of market maturity and the full scope of envisaged economic and financial risks relating the investments in SMEs.*

b. Quality and feasibility of proposed approach and methodology.

- *Adequacy of infrastructure, back office, reporting and governance policies and processes: This includes efficient back-office operations that handle settlements, clearances, record maintenance, and other administrative functions. Reporting mechanisms must be capable of producing accurate and timely reports for internal and external use.*
- *Robustness of due diligence and investment process: This includes researching companies, meeting management, and studying the financial industry and economy to determine which securities provide the greatest return on investment.*
- *Risk management capacity and approach*
- *Investment Team Quality: Highly skilled and experienced team capable of executing the Fund's strategy.*
- *Timeliness: Ability to commence work within the specified timeline, ensuring that the Fund's objectives are met promptly.*

c. Expertise in climate policy and investment.

- *Possess in-depth understanding of the climate policy and investment, both within Kenya and internationally: This could include ensuring that the Fund manager has strong expertise to incorporate climate risks and opportunities systematically across the entire investment decision making process, as well as keeping abreast of current and proposed laws and regulations relating to climate change that could impact the Fund and the* *investee companies. Ideally, the Fund Manager should have a strong understanding of regional and global trends related to green and sustainable finance, and should have proven experience in leading investments for climate mitigation and adaptation in Kenya or elsewhere in East Africa;*

- *Be adept at overseeing the processes that ensure accurate reporting and disclosure of climate information:* *This involves understanding the standards and methodologies for measuring, disclosing, and reporting on climate-related risks and opportunities. This could include being agile and monitor the relevance of investment approach in a changing environment, and modify if necessary.*

d. Cost-effectiveness of the firm's proposal.

- *Financial Performance: Strong financial performance of previous or existing investment vehicles, demonstrating the ability to generate returns while managing risks effectively.*
- *Fee Structure: Competitive and transparent fee structure that aligns with the Fund's objectives.*

11. SUBMISSIONS OF PROPOSALS

Interested applicants should submit their proposals to:

The Project Director

Project Implementation Unit

State Department of Investment Promotion (SDIP) K-JET Project

kjetgif@investmentpromotion.go.ke

The deadline for submissions is **7th March 2025**

12. PROCESS AND TIMELINE FOR SELECTION

The selection team will adhere to the following schedule and is estimated to be about four (4) months:

Activity	Timeline
Approval of Terms of Reference and no objection by the World Bank	T
EOI requested from potential Fund Managers through public advertisement with deadline for submission to Project Director, Project Implementation Unit, State Department of Investment Promotion K-JET	T+14
Shortlisting of applicants from EOI and communication to eligible applicants	T+28
Issue of RFPs to eligible applicants with communication of deadline to submit RFP via email to **kjetgif@investmentpromotion.go.ke**	T+42
Undertake a pre – RFP submission with shortlisted potential Tenders Answers to all questions for clarification are provided in writing to the relevant fund managers	T+49
Interested fund managers submit their proposals to the State Department of Investment Promotions. Deadline to submit proposal via email to **Project Director, Project Implementation Unit, State Department of Investment Promotion K-JET (kjetgif@investmentpromotion.go.ke)** with email title of "Technical Proposal for Establishment and Management of Green Investment Fund"	T+63
Tenderer with highest ranked proposals are invited to a call with the State Department of Investment Promotion K-JET to present their initial proposal and seek clarifications to any remaining questions	T+73
Tenderer to submit their revised final proposal	T+80
Applicants (fund manager) shortlisted and notified of status	T+101
Shortlisted fund manager to present to the selection committee in final interviews	T+115
Manager selection decision	T+130

Disclaimer

This document is a summary of the principal terms that would apply to the proposed Green Investment Fund. These Key Terms and Conditions in this RFP are subject to change, and many are up for discussion with the prospective Fund Manager. This Key Terms and Conditions document does not constitute an offer or a commitment by State Department of Investment Promotion or KDC. The decision to accept any offers by the Fund Manager to support implementation of the Program is contingent upon approval by the Principal Secretary, State Department of Investment Promotion and execution of final documentation in form and substance satisfactory to the SDIP KJET Project Implementation Unit.