

## Draft

# Terms of Reference for the Fund Manager of the Afghanistan Business Innovation Fund (ABIF)

24 August 2010

## 1. Objective

DFID Afghanistan is seeking to procure the services of an international consultancy firm to act as Fund Manager to establish and run the Afghanistan Business Innovation Challenge Fund (ABIF) under DFID Afghanistan's Supporting Employment and Enterprise Development (SEED) umbrella programme (2009-2013). The overall Goal of SEED is to increase economic opportunity delivered by the private sector, resulting in the creation of 20,000 jobs and a 10% increase in incomes of 200,000 Afghans by 2013. Its Purpose is to strengthen the private sector's ability to invest and compete. The ABIF aims to support the SEED purpose and goal by catalysing innovative business models that improve access to markets and contribute to income and employment generation.

## 2. Background

### *Afghanistan's private sector*

The majority of Afghan enterprises are small, trade-based, importer/wholesalers and retailers with a few large international companies having moved in, primarily in the construction, telecom and mining industries. The domestic private sector is weak in its capability to discover new opportunities and ability to compete internationally. Although exports have increased, they remain focused on the traditional agricultural produce and handicrafts of the country. Industrial and service growth has been largely derived from non-traded goods and services (construction, finance, retail) because of a lack of competitiveness.

For the poor, especially the rural poor, the ability to access markets is limited by poor infrastructure (power, roads, ICT) and numerous market failures, especially information and coordination failures that result from widespread illiteracy and the small size of the productive enterprise (farms or businesses). Very often, a market failure in the industry or value chain downstream reduces the incomes of large numbers of small producers. For instance, the absence of modern drying facilities reduces the incomes of all farmers involved in producing raisins.

For broad-based economic growth, the challenge is for Afghanistan to unlock the creativity of its entrepreneurs and to fill the gap in competitiveness with its neighbours. The evolution of such a stratum of creative businesses and competitive industries in Afghanistan is inhibited by the security situation, a number of government failures in the provision of infrastructure and the business environment, as well as market failures, most significantly in the area of access to finance. While these are being addressed by other programmes, a challenge fund is needed to

support the creativity and competitiveness of Afghan business which generates wider developmental benefits for Afghan men and women.

Encouraging examples exist of businesses in Afghanistan able to find innovative solutions. The ICT sector has been able to develop mobile and internet services without the required public infrastructure. A domestic construction industry has developed within a few years that now generates 10% of GDP. Within the adverse environment, returning members of the Afghan Diaspora have proven to be some of the most resilient and pioneering entrepreneurs engaged in the rebuilding of the country. It is estimated that about 50% of all foreign capital that have entered Afghanistan since 2001 have come from the Diaspora.

### ***DFID Challenge Funds and the ABIF***

Challenge Funds are a well established mechanism to encourage the private sector to explore new approaches that link their core business and commercial objectives to delivering better development outcomes. They do this for example by investing in new supply chains or finding new ways of making their goods and services available to poor people. To share the risk and leverage investments into such new business models, Challenge Funds offer matching grants of up to 50% of firms' investment on a competitive basis - provided that companies can demonstrate that they would otherwise not make the investment due to associated risks and uncertain returns. They catalyse systemic changes in markets, and help prove the viability of new business models and enhance the ability of such projects to be replicated and access commercial finance.

DFID has been a leader in the development of the Challenge Fund approach. The Business Linkages Challenge Fund (2000-2005) and the Financial Deepening Challenge Fund (2000-2008) successfully engaged the private sector in transformational and innovative investments. One example is Vodafone's investment in mobile phone banking (M-PESA) in Kenya, matched by DFID with £1 million. This has enabled many poor, previously excluded, people to gain access to the formal bank network. The model has meanwhile been rolled out in various other countries, among others in Afghanistan through the telecommunications company Roshan. DFID's new wave of second generation challenge funds includes the Africa Enterprise Challenge Fund (AECF), the Food Retail Industry Challenge Fund (FRICH), and the Responsible and Accountable Garments Sector Challenge Fund (RAGS).

Drawing on its extensive experience with challenge funds worldwide, DFID intends to establish a dedicated **Afghanistan Business Innovation Fund (ABIF)**. Given the nascent nature of Afghanistan's private sector and unproven demand for a challenge fund mechanism, DFID intends to run the Fund as a pilot, with the possibility of winding it down quickly if needed or, if successful, expanding it both in funding size and timeframe (possibly with co-financing from other donors). DFID's initial investment is £6 million over three years.

Expected results will be:

- An increase in pro-poor investment by the private sector
- Increased profits of companies, resulting in increased Government revenue

- Increased competitiveness of Afghan businesses
- Large scale increases (e.g. through multiplier effects) in jobs and incomes for poor Afghan men and women (tentative targets under SEED are 5000 jobs (of which 1500 are for women) and a 10% increase in monthly incomes for 100,000 people)
- Systemic change in markets
- Improved market access for the poor as consumers – access to previously inaccessible, cheaper, or better quality goods and services
- Improved linkages between businesses and improved value chains, resulting in better inputs and markets for their products

### ***Preliminary ABIF design elements***

Preliminary design ideas are laid out below – these are subject to further design work by the Fund Manager and can also be amended throughout implementation based on lessons learned.

The Fund is expected to have two windows:

#### Window 1:

Pro-Poor Innovation: Grants are provided to projects proposed by Afghan enterprises. The grants, to be at least matched by 50% contributions from the applicant enterprises, will be used to support pioneering and potentially commercially viable projects that have strong pro-poor benefits such as: extending poor people's access to markets; discovering new product opportunities in which the country can compete; helping to demonstrate business models that increase access to markets, productivity and competitiveness; generate employment or improve the incomes of the poor.

#### Window 2:

Competitiveness of industry clusters: This will award grants (up to 70% of total costs) to projects proposed by business representative organisations, clusters of firms and non-governmental organisations that will benefit private sector led growth and employment/incomes by improving the competitiveness of industries or clusters. The criteria for selection will include: the potential for job creation; the numbers of poor whose livelihoods would be improved; the potential for sustainable growth; the potential 'spillover' / multiplier effects into other parts of the economy; the commitment and capability of industry stakeholders to implement reforms. A key criterion for success will be the extent to which Afghan businesses are directly involved in supporting the cluster mechanism.

Fund management and oversight:

The Fund will be managed by an international consultancy firm (possibly partnering up with a local organisation). The Manager will be responsible for generating applications and overseeing projects. Given the unproven demand for the Challenge Fund and weaknesses in Afghanistan's private sector, the Fund Manager needs to be more proactive than in other environments in terms of identifying and developing appropriate projects and managing associated risks. Project selection is made by a

panel of independent experts (and possible donor representatives). If necessary, an independent Investment Committee will oversee the Fund.

Application and grant award process:

Grants are awarded through an open, competitive process to avoid picking winners. This will include open public solicitation and targeted marketing. Two application stages are anticipated: the submission of concept notes, and, if approved, the submission of a full proposal.

Qualifying businesses – selected against a range of rigorous criteria on a competitive basis to avoid market distortions – would have to demonstrate that their proposed investment will yield the above listed results and would not take place without public support.

Potential list of criteria for projects eligible for funding:

- Business must be registered in Afghanistan (or partner up with an Afghan business)
- Pro-poor business models with potentially wider economic impacts that would not take place without public support
- Benefits in terms of poverty reduction, demonstration effects, growth effects
- Addresses market failures (information asymmetry, uncompetitive markets due to high entry barriers, externalities beyond direct profits to the investor, i.e. wider economic and social benefits accruing to the economy and giving rise to poverty reduction or wider economic growth through demonstration effects, new processes spilling over into other markets)
- Activities are very slow to take place in market, can ensure quicker access through the Fund to such products and processes by poor people
- Lack of activity in pro-poor markets without market failure – firms have no incentive to go into new markets
- Lack of expertise and finance to expand their companies to a size that impacts on the market – has beneficial spill over effects
- Consider impact of competition and first mover advantage
- Pro-poor systemic change in a market
- High social impact and financial viability

Funding and timeframe:

DFID has allocated an initial budget of £6 million. The Fund is expected to be set up early 2011 and will run for three years unless lack of demand requires it be closed down early. An expansion in funding size and timeframe is possible if success proves the need for additional resources and time – the former could possibly also come from other donors.

### **3. Scope of Work**

The Fund Manager is expected to assume the following responsibilities:

#### **3.1. Establishment of the Fund**

It is intended that the Fund will commence operations early 2011. There will be a three months inception phase, during which the Fund Manager is expected to finalise the current draft design of the ABIF and establish the Fund accordingly. A contract of three months covering the initial inception phase will be awarded after an international competition. Operations will commence as soon as possible thereafter, provided that the inception phase has been concluded satisfactorily. If the inception phase has not been concluded satisfactory, DFID reserves the right to undertake a further tender process for the implementation phase. Detailed responsibilities are listed in Annex 1.

#### **3.2. Management of the Fund**

The Fund Manager will be responsible for the timely and effective management and implementation of the ABIF and related grant projects to satisfy DFID's accounting, procurement and programme requirements. This includes a proactive approach to identification and generation of project ideas and some provision of technical assistance to (potential) applicants in project development as well as in project implementation (risk management). Detailed activities are listed in Annex 2.

Neither the selected Fund Manager, nor its employees or associates will be eligible to receive funds due to the conflict of interest this would present.

The Fund Manager will be expected to pre-finance all costs in respect of the contract including costs associated with the £6m fund. All costs should be claimed in arrears in line with DFID's standard terms and conditions of contract.

#### **3.3. Monitoring and Evaluation**

The Fund Manager will provide high quality monitoring and evaluation of project implementation and ensure that projects funded by the ABIF deliver according to plan, are cost effective and results oriented. Detailed activities are in Annex 3.

#### **3.4. Reporting**

The Fund Manager will be responsible for reporting to DFID and for obtaining satisfactory reports from grantees. See annex 4 for details.

#### **3.5. Knowledge Management and Communication**

Responsibilities for knowledge management and communication are detailed in annex 5.

### **4. Deliverables**

The Fund Manager is responsible for delivering the following outputs in line with DFID requirements:

#### **4.1. For the three months inception phase:**

- A final Project Document and logframe in DFID format, agreed with DFID Afghanistan (by end of month 2)
- A 33 month strategic plan and annual work plan, a firm detailed budget for the implementation phase and procurement plan (by end of 2.5 months)
- Established funding, management and reporting mechanisms (by end of 2.5 months)
- Operations Manual (including procedures and processes for grant making / project development and management, financial management, M&E etc.) with relevant forms / document templates (by end of 2.5 months)
- An established ABIF office with all key staff in place (by end of month 3)
- Grant application documents / forms, tools and processes (by end of month 3)
- Applicant guidelines and assessment criteria (by end of 2.5 months)
- A data collection / M&E system and framework (by end of 2.5 months)
- ABIF management and governing structure with Terms of Reference (by end of month 3)
- Governing charter if appropriate (by end of month 3)
- A marketing and communications strategy and related material (by end of 2.5 months)
- First round of promotion of the ABIF (by end of month 3)
- Analytical pieces of work, as needed, for Project Document appraisals and to identify market demand (by end of first month)
- List of potential projects for ABIF grant funding (by end of month 3)
- First grant competition advertised (by end of month 3)
- And other documents as the need arises

#### **4.2. Throughout the ABIF implementation phase:**

- A pipeline of project proposals to be maintained throughout from which projects can come forward
- A sufficient number of successful projects
- Annual budget, work and procurement plans at the start of each year for the following years (2 and 3)
- Quarterly and annual progress reports in DFID format
- Case study database
- Lessons learned and analytical pieces if appropriate
- And other documents as the need arises

### **5. Methodology**

The ABIF is a risk sharing mechanism that will provide grant financing (and some technical advice) to businesses, business associations and NGOs to test and implement innovative business models that offer pro-poor and wider developmental benefits but are commercially unproven. The methodology should include the following:

- A registered office in Kabul to run the Fund with necessary staff and support facilities (possibly co-located with Harakat – the Afghanistan Investment Climate Facility). Support staff will need to be hired, and essential equipment procured, in order to implement the project.
- Project management and technical skills provided through a combination of internationally and nationally recruited experts. Senior positions will be approved as part of the tender process.
- Liaison where appropriate with other challenge funds

The main challenge during the implementation of this programme will include the ability of the Management Consultants to identify, support and target businesses, business associations and NGOs to undertake pro-poor investments that they would otherwise not make and for which no alternative sources of support are available. DFID expects the Fund Manager to fully address these challenges and develop a balanced portfolio of support to Afghan businesses.

In the design and implementation of the Fund, the managing firm will draw on available lessons and experience from other relevant Challenge Funds. It will maintain effective working relations with key stakeholders in the country, in particular foreign and domestic businesses, business associations, NGOs, other donors, Government bodies, and the media.

## **6. Geographic focus**

While the Fund Manager will be based in Kabul, the ABIF will support projects that can be implemented in various parts of the country.

## **7. Timeframe**

The programme runs over three years (January 2011 – December 2013), with the possibility of extension of up to two years upon successful completion of the first phase. The Fund Manager will be subject to performance reviews on an annual basis, as part of DFID standard Annual Reviews of the programme. Fund manager services are required for a three-months inception phase and a minimum of 33 months implementation – separate contracts will be issued for each, whereby transition from one contract to the next will be seamless if DFID is satisfied with deliverables under the inception phase. Services can be extended beyond December 2013 if satisfactory along the same timeline as the ABIF.

A contract for the implementation phase will be awarded subject to: DFID's satisfaction with the project design and the supplier's performance; and to satisfactory negotiation of the implementation budget. DFID reserves the right to re-tender the implementation work if these conditions cannot be met.

## **8. DFID role and coordination arrangements**

DFID Afghanistan will maintain oversight of the ABIF including the management team, expert panel and investment committee. The Fund Manager will be fully answerable on all issues to DFID Afghanistan. The DFID Private Sector

Development Adviser will be the first point of contact. Head of Office, Deputy Head of Office and the Growth and Livelihoods Team Leader will have overall quality assurance and corporate compliance responsibilities.

Specific responsibilities of DFID towards the ABIF – subject to amendment in the design phase as needed:

- Approve key ABIF staff recruitments and contracted services
- Approve deliverables of the Fund Manager
- Approve all projects to be funded
- Conduct annual reviews
- Participate in relevant meetings with stakeholders

Detailed obligations of each party will be specified in the agreement between DFID and the Fund Manager

## **9. Contracting arrangements**

DFID will assess full bids containing both inception and implementation phase, whereby a full budget is required for the inception phase and indicative fee rates for the implementation stage. The Fund Manager will initially be contracted for a three-months inception phase. If completed to DFID's satisfaction, DFID will issue a separate contract for the 33 months implementation phase. In that case, transition from inception to implementation will be smooth to avoid losing any momentum.

## **10. Team Composition and Qualifications**

It is envisaged that the the Fund Manager will provide a small team of international experts to run the ABIF on the ground, supported as necessary by local partners.. The Fund Manager should have the following qualifications:

- Excellent understanding of challenge funds and Making Markets Work for the Poor (M4P) concepts
- Proven expertise and experience in managing business challenge funds
- Expertise and experience in promoting innovative business models to benefit the poor
- Relevant experience / expertise in private sector development and investment promotion in conflict states, preferably Afghanistan
- Proven expertise in managing grant giving mechanisms, including financial control, reporting and M&E; and proven ability to manage a programme of this size
- Expertise in strategic project identification, applicant support, financial management and M&E
- Understanding of the policies, operations and systems of relevant donor agencies
- Ability to mobilise quickly

The Fund Manager will be required to keep full staffing (key team members) at all times and fill arising gaps immediately.

## **11. Award criteria for full bid stage**

At the bid stage, Bidders will be required to provide in their technical proposal the methodologies for the implementation phase. A track record of relevant expertise and experience in managing DFID or other donor challenge funds is required.. Bids will be weighed according to the following criteria:

### **11.1. Technical proposal - 80%**

- Quality of personnel and ability to deploy on time – 30%
- Evidence of capacity to undertake work in terms with TOR and quality assurance (understanding and response to requirements, including ability to produce inception deliverables on time). Also evidence of capacity to scale up operations if the fund is co-financed by other donors – 20%
- Methodology including use / number of days input & innovative approach to addressing the objective of the Fund (including response / suggestions to preliminary design ideas) – 30%

### **11.2. Financial proposal - 20%**

The financial proposal should contain a full budget for the three-months inception phase and fee rates for the implementation phase. The budget for the implementation phase will be established and negotiated with DFID during the inception phase.

## **12. Duty of Care and Logistical Arrangements**

The team will fall under the duty of care of the consultancy/organisation that deploys them. DFID will need to be convinced that systems and procedures that they have in place are adequate given the present security situation in Kabul. DFID will provide duty of care for travel to Helmand, should this be required.

## **ANNEX 1: SCOPE OF WORK ON ESTABLISHING THE FUND**

- Refine and finalise the draft design (including scope and size of funds, application process, project development and approval cycle etc), and finalise the DFID draft Project Document including economic appraisal and logframe (establishing indicators, baseline values and targets)
- Set up the Fund with associated funding, management and reporting mechanisms
- Set up office facilities and recruit all staff
- Set up institutional management and governing structure and prepare TOR
- Produce a detailed operations manual with related documents that set out selection and funding criteria and mechanisms, grantee obligations, Fund Manager responsibilities, financial management and procurement procedures, monitoring and evaluation as well as reporting arrangements
- Develop guidelines and assessment criteria for funding applications, which will include a fiduciary and management assessment (due diligence and appraisal of management capacity), environmental and social / gender impact assessments, for each proposal carried out by the Fund Manager, and, if needed, joint discussions between potential beneficiary and relevant DFID staff at both the project concept and final proposal stage.
- Prepare application forms, tools and process
- Prepare other forms and document templates
- Prepare a marketing and communications strategy and related material to promote the Fund and commence promotion
- Prepare a three-year strategic plan and annual work plan for the Fund
- Conduct desk and field based analysis as necessary to gather required data for the above listed tasks
- Identify potential projects

## **ANNEX 2: SCOPE OF WORK ON MANAGING THE FUND**

- Efficiently perform programme, financial, procurement and staff management functions, ensuring high level of quality control for all work of the ABIF
- Improve the structure and management of the ABIF based on feedback regarding performance and impact
- Establish and maintain effective working relationships with other relevant organisations and programmes (in particular the DFID funded Afghanistan

Investment Climate Facility – Harakat, the USAID funded Afghanistan Small and Medium Enterprise Development project – ASMED, and the World Bank matching grant Facility for New Market Development), ensure proper linkages / synergies and avoid overlaps, and seek co-financing if necessary

- Develop a strategic project portfolio
- Market the Fund, proactively identify and promote investment opportunities and proposals
- Process applications, select suitable applications to be forwarded to the selection panel and make related recommendations, provide active support (including some in-house technical advice / feedback on project ideas and proposals) to applicants in project design and development
- Ensure robust and transparent assessment and supervision of funded projects
- Review and approve budgets, work plans and accounting systems of grantees
- Negotiate and sign grant agreements with successful applicants and provide grant funding, making timely disbursements in accordance with the achievement of agreed project delivery targets
- Prepare annual budget, work and procurement plans for ABIF
- Oversee (and provide limited technical support if needed to) project implementation and manage associated risks
- Oversee grantee project related procurement and the quality of services delivered
- Assess and manage risk at regular intervals with regard to approaches to grant making activities. This will include contingency plans and programming adequate flexibility to deal with unforeseen risks.
- Maintain financial oversight of programme and project funds and ensure compliance with financial management regulations
- Submit invoices to DFID for payment on a monthly basis
- Contract an internationally reputable audit firm to conduct independent annual audits of the ABIF and selected projects as needed

### **ANNEX 3: SCOPE OF WORK ON M&E**

- Design and apply M&E and lesson learning frameworks
- Set up results and qualitative and quantitative performance benchmarks and operate an M&E system
- Apply lessons from other DFID challenge funds
- Promote best practice in implementation of the ABIF and develop effective ways to disseminate best practices
- Commission and supervise evaluations (annual and mid-term reviews) and impact assessments, and ensure that these are conducted on time and as per DFID's requirements
- Maintain data records on applicants (successful and unsuccessful) and projects (project activities, outputs and outcomes) – records will be owned by DFID

### **ANNEX 4: SCOPE OF WORK ON REPORTING**

- Develop and agree with DFID on a satisfactory reporting format for ABIF to DFID and for grantees to ABIF including the establishment of necessary systems required to generate reliable information
- Submit quarterly progress financial and narrative reports to DFID detailing:
  - Initiatives in the pipeline and stage reached (e.g. number of expressions of interest, proposal received, forecasts and actual expenditure)
  - Budget (actual spend and forecast)
  - Progress against project work plans
  - Goods and services procured by ABIF
  - Any management issues for consideration by DFID
- Provide to DFID annual reports of progress against the Logframe. These will contribute to DFID's annual review
- Obtain quarterly progress reports from grantees against delivery milestones, financial reports with supporting documents, and annual reports on progress against project logframes
- Provide timely response and feedback to grantees on key implementation issues that require further attention

## **ANNEX 5: SCOPE OF WORK FOR KNOWLEDGE MANAGEMENT AND COMMUNICATION**

- Ensure information, evidence and experience generated by the Fund and project partners is properly documented and analysed to contribute to improving understanding of key stakeholders on what works and what does not in stimulating business innovation
- Develop a case study database to assist dissemination and marketing of the Fund
- Research activities which support the ability of the Fund to meet its objectives by gathering and analysing evidence-based conclusions