

Terms of Reference for Financial Engineering Expert

United Nations Development Programme (UNDP)

Global Environment Facility (GEF)

Government of Lesotho

Consultancy

Terms of Reference for Financial Engineering Expert

Country	Lesotho
Project Title:	Development of Cornerstone Public Policies and Institutional Capacities to accelerate Sustainable Energy for All (SE4All) Progress.
Type of Contract	Individual Contract – International
Start Date: (date when the selected candidate is expected to start)	June 2017
Duration of project	2016 - 2021
Duration of Contract	30 days including a one week mission to Lesotho
Reporting to:	Project Manager
Duty Station:	Maseru, Lesotho + Home Office

Background

The global UN initiative on Sustainable Energy for All (SE4All) promotes action from all sectors of society in support of three interlinked objectives to be achieved by 2030: providing universal access to modern energy services; doubling the global rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix. Making sustainable energy for all a reality and de-carbonising the world economy in time to avoid unmanageable climate change will require a radical transformation of today's energy systems. The need to rapidly transition to more sustainable energy sources is clear. However, there remain major barriers to scaling up renewable energy, particularly in developing countries. Attracting private capital is one of the challenges since energy investors are concerned about the risks associated with capital-intensive and long-term investments in developing economies. Utilities and electricity supply-chain actors tend to shy away from unproven technologies or businesses perceived to carry an above-average degree of risk. A key challenge for policymakers is to create the conditions to make renewable energy attractive to investors without jeopardizing the attainment of other equally important development goals or placing an inequitable share of the cost burden on ratepayers (UNDP-GEF Transforming On-Grid Renewable Energy Markets, 2012).

Investment in renewable energy projects often requires to be supported with financial incentives, at least initially, because such projects are not only typically more investment-intensive in terms of upfront costs, but they are also, in some cases, considered to be riskier investments due to technology or resource uncertainties. The degree to which cost and risk factors apply varies according to technology and geographical location and project developers expect some form of financial support/risk-sharing to compensate them for taking on additional financial risks due to, as in the case of Lesotho, the absence of a working business model that can be emulated. There

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needs to be a policy and regulatory framework developed for private sector participation in energy service delivery for off-grid services. Such a mechanism would open the way for sustainable project development financing for rural electrification and a sustainable operating subsidy mechanism for off-grid services that draws on the current cross-subsidy already established for on-grid services.

Project Objective

The UNDP Country Office and the Government of Lesotho will, for the next five years (2016 – 2021) implement a GEF-financed project “**Development of Cornerstone Public Policies and Institutional Capacities to accelerate Sustainable Energy for All (SE4All) Progress**”. The objective of the project is to catalyse investments in renewable energy-based mini-grids and Energy Centres to reduce greenhouse gas (GHG) emissions and contribute to the achievement of Lesotho’s Vision 2020 and SE4All goals. It proposes to put in place an enabling environment for the development of these renewable energy systems and develop a suitable business model and financial instruments for their viability and replication. Thus, this programme will not only benefit rural households and small commercial enterprises, but will also connect the private sector, financial institutions, technical training and local organisations to promote the establishment of distribution channels to develop the renewable energy market for the provision of electricity services. Project outcomes are as follows:

- Development of cornerstone SE4All Policies and Strategies to facilitate investment in renewable energy-based mini-grids.
- Improved capacity of energy stakeholders and government officials for decentralized clean energy planning and decision-making on the basis of quality energy data.
- Successful establishment of a village-based energy service delivery model for replication nationally
- Outreach programme and dissemination of project experience/best practices/lessons learned for replication nationally and throughout the region.

In light of this, the Government of Lesotho and UNDP Country Office require the services of a Financial Engineering Expert to design the Financial Support Scheme (FSS) including criteria for disbursement, with the purpose of jump-starting the market to buy down the initial investment required for developers of mini-grids and Energy Centres under this project and consequently reduce the total interest amount payable, and make the electricity tariff affordable to rural consumers.

It is expected that by the end of the assignment, the management arrangements of the FSS and the criteria for disbursement will be clear, enabling all project partners to have an understanding of how the financial scheme works in practice and how it is managed. Provision should be made for auditing and monitoring of the FSS outside of the regular UNDP/GEF project audit.

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Financial Support Scheme Snapshot

Financial Support Scheme Snapshot

Purpose:

- (a) To establish a performance-based incentive (PBI) fund that will not only enable a developer to keep the tariff low, but will also be effective in motivating developers/system owners to target project sustainability by focussing on proper design, installation, maintenance and performance of their renewable energy-based systems, since the payment will be based upon the actual energy produced.

Initial capital of \$ 300,000, viz. \$ 250,000 from GEF funds and \$ 50,000 from UNDP.

- (b) To support the preparation of feasibility studies/business plans (FS/BP) and partial investment for isolated renewable energy-based mini-grids. This will be achieved through the provision of a grant to eligible project developers, through the DoE, in an amount of up to 50% for each of the costs involved for the feasibility study and the investment grant, with a maximum per project allocation not exceeding \$ 60,000.

Initial capital of \$ 600,000, viz. \$ 500,000 from GEF funds and \$ 100,000 from UNDP.

- (c) To support the establishment of 10 Energy Centres, with each serving some 5 surrounding villages. This component will have an initial capital of \$ 300,000, viz. \$ 250,000 from GEF funds and \$ 50,000 from UNDP. This subsidy will be a maximum of \$ 7,500 per EC/year over a 4-year period, payable at the end of each year of operation. However, the total subsidy to each Energy Centre by the end of the project should not have exceeded 50% of the initial cost of its establishment.

Initial Capitalisation: \$ 1,200,000 (\$ 1,000,000 from GEF and \$ 200,000 from UNDP). This will be sufficient to disbursements for all 3 components above during the 5-year project timeframe.

Additional Capitalisation Target from other donors/Government of Lesotho: \$ 5 million.

Specific consultancy activities

Under the overall supervision of the Project Manager, the Financial Engineering Expert will:

- Review the project document and request for the Chief Technical Advisor (CTA) and Project Manager's endorsement in detail in order to fully understand the overall project design and the rationale and expected role of the FSS.
- Meet with Lesotho Electricity and Water Authority (LEWA), the Department of Energy, potential project developers and other key stakeholders during a brief in-country mission to understand how similar funds in Lesotho are currently managed, in particular the Universal Access Fund, and to discuss the proposed design of the FSS.
- Assess the idea (as per the project document) that LEWA should host and manage the Financial Support Scheme (FSS) fund, taking into consideration the latest developments in the energy sector. Recommend relevant institution to host the FSS.
- Identify potential donors for the additional capitalisation of the FSS. One of the project's targets is that \$5 million has been invested in the FSS by project end.
- Based on the desk review and stakeholder consultations, and taking into account the experience with similar financial mechanisms in other GEF projects, design the FSS in line with the three elements outlined above, namely:
 - A performance-based incentive for project developers based upon the actual energy produced;
 - Support for the preparation of feasibility studies/business plans and partial investment for isolated RE-based mini-grids;
 - Support for the establishment of 10 Energy Centres, each serving about 5 villages.
- Draft a Memorandum of Understanding between UNDP and the FSS host defining how the project will work.

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Qualifications and Experience

Education:

A post-graduate university degree in climate finance as it relates to climate change, environmental management and/or business administration, or equivalent work experience.

Experience:

- At least 5 years of professional experience in designing financial mechanisms for GEF climate change mitigation projects.
- Strong knowledge on renewable energy, including renewable energy-based mini-grids.
- Experience with banking and financial practices supporting renewable energy-based mini-grids, especially in African Developing States, would be an asset.
- Familiarity with UNDP rules, regulations and administrative procedures would be an advantage.

Competencies:

- Demonstrates integrity and ethical standards;
- Mature judgement and initiative;
- Ability to think out-of-the-box;
- Ability to present complex issues in simple and clear manner;
- Ability to work under pressure and deliver high quality results on time;
- Initiative and independence.
- Computer proficiency, especially related to professional office software packages.
- Excellent drafting and communication skills.

Skills:

- Analytical capacity and demonstrated ability to process, analyse and synthesise complex, technical information from different discipline;
- Ability to innovate, combining methodological approaches and data from various levels and disciplines including economics, finance, development and climate change mitigation;
- Proven ability to support the development of high quality knowledge and training material, as well as audio-visual communication products.

Expected deliverables and schedule of works

The duration of the survey will be approximately 2 months (**30 working days**). The consultant will undertake 1 missions (10 days), in Maseru Lesotho, while the remaining 20 days will be spend in home office.

Consultancy Deliverables:

- Report comprising of detailed design of the FSS encompassing the three elements outlined above (FSS snapshot). The design of the FSS should include a clear explanation of the management arrangements of the fund and the criteria for disbursement. It should also include a clear exit strategy, in particular under what circumstances would the funds be returned to GEF in the case of non-performance or financial mismanagement.
- Information on potential donors for additional capitalisation of the FSS.
- Draft Memorandum of Understanding between UNDP and the FSS host defining operation, management arrangements and roles of key stakeholders.

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Key Deliverables

Table 1: Expected Deliverables

Deliverables/ Outputs	Estimated duration to complete task	Target Due Dates	Review and Approvals Required
Final inception report	14 – 19 June, 2017 (5 days)	19 June, 2017	PM, CTA, DOE
Stakeholders' Consultation Report	05 – 14 July 2017 (10 days)	14 July, 2017	PM, CTA, DOE
Memorandum of Understanding between UNDP and the FSS host	15 – 20 July 2017 (5 days)	20 July, 2017	PM, CTA, DOE,
Final Financial Support Scheme Report	21 – 30 July 2017 (10 days)	30 July, 2017	PM, CTA
Total	30 days		

PM- Project Manager, CTA – Chief Technical Advisor, PSC – Project Steering Committee DoE – Department of Energy

Language Requirements: Excellent English, both oral and written.

Scope of price proposal and schedule of payment

- The proposed price must be a lump-sum which is an “all-inclusive package” including duty travels and daily subsistence allowances
- The contract price is fixed regardless of changes in the cost components, any changes will go through a variation negotiation
- The expert will be required to submit timesheet which shall form the basis for payment including expected deliverables
- Schedule of payment will be as table below:

Payment Schedule

Deliverable/Outputs	Target Due Dates	% of lump sum to be paid
Final inception report	19 June, 2017	10%
Stakeholders' Consultation Report	14 July, 2017	10%
Memorandum of Understanding between UNDP and the FSS host	20 July, 2017	30%
Final Financial Support Scheme Report	30 July, 2017	50%
Total	30 days	100%

Recommended presentation of offer

- P11 indicating all past experience from similar projects, as well as the contact details (e-mail and telephone number) of at least three (3) professional references using the template provided by UNDP (Annex I)
- Letter of Confirmation of Interest and Availability using the template provided by UNDP (Annex II)

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- **Methodology** - Brief description of why the individual considers him/herself as the most suitable for the assignment and a methodology on how they will approach and complete the assignment.
- Financial Proposal that indicates the all-inclusive fixed total contract price, supported by a breakdown of costs using template provided by UNDP (Annex III)

Criteria for selection of the best Offer

Highest Combined Scoring method will be applied to assess both the technical and financial proposals. The weight of the technical criteria is 70%; the weight of the financial proposal is 30%. Only candidates with a minimum of 70% in the technical evaluation will be considered for the financial evaluation.

Evaluation Criteria

Criteria	Weight
<i>Technical</i>	70%
Qualifications:	
<ul style="list-style-type: none"> • A post-graduate university degree in climate finance as it relates to climate change, environmental management and/or business administration or equivalent work experience. 	15%
Methodology:	15%
Experience:	
<ul style="list-style-type: none"> • At least 5 years of professional experience in designing financial mechanisms for GEF climate change mitigation projects. 	15%
<ul style="list-style-type: none"> • Strong knowledge on renewable energy, including renewable energy-based mini-grids. 	10%
<ul style="list-style-type: none"> • Experience with banking and financial practices supporting renewable energy-based mini-grids, especially in African Developing States. 	10%
<ul style="list-style-type: none"> • Familiarity with UNDP and GEF rules, regulations and administrative procedures. 	5%
<i>Financial</i>	30%
Total = technical + financial (70% + 30%)	100%

Annexes to the TORs:

- Annex I – P11 form
- Annex II – Letter of Confirmation of Interest and Availability
- Annex III – Financial proposal template

Offers with the requirements listed above may be submitted to:

United Nations Development Programme

The Resident Representative,

REF: IC, Chief Technical Advisor (CTA), SE4AH

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3rd Floor UN House

P.O. Box 301

Financial Engineering Expert

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Date: 05/05/2017

Approved by Director – Department of Energy

Name: MOKHETHI J. SEITHEHO Signature: 

Date: 05/05/2017

Authorised by UNDP Sustainable Development Advisor:

Name: LIMOMANE PESHOANE Signature: 

Date: 05/05/2017