

Section 5. Terms of Reference

I. Purpose of assignment

The purpose of this Request for a Proposal (**RFP**) is to identify a fund manager (the **Manager**) for the Mongolia Value Chain Investment Fund (**MVCIF**, or the **Fund**). MVCIF is a pioneering fund initiative sponsored by United Nations Development Program (**UNDP**) to invest in a portfolio of companies that will contribute to sustainable value-chain development and preserve and enhance the viability and climate-resilience of Mongolia's rural economy. The documentation in this Terms of Reference (TOR) outlines for interested fund managers:

- **Background and Objectives:** The objectives of UNDP in facilitating establishment of the Fund;
- **Manager-UNDP Relationship:** The nature of the relationship between UNDP and the Manager with respect to the Fund;
- **Scope of Work:** Expected deliverables and outputs, anticipated responsibilities and obligations of the Manager;
- **Process and Timing:** UNDP's process for selecting the Manager and the intended timeline for the design, structuring, raising and close of the Fund; and
- **Submission Content and Evaluation Criteria:** The content required in responses to the RFP and criteria against which submissions will be evaluated.

It is recognised that the success of MVCIF will require alignment of interests between UNDP and the Manager, and a highly collaborative approach to finalising the design and structuring of the Fund. Extensive interaction will be required between the two parties. As such, once the preferred Manager has been identified, UNDP and the Manager will work together to finalise the investment strategy and parameters of the Fund.

II. Background

a) UNDP and the Private Sector

UNDP works in over 170 countries and territories around the world to eradicate poverty whilst protecting the planet. It helps governments and local institutions to develop policies, skills, partnerships and institutions so that progress can be sustained. Adoption of the Sustainable Development Goals (**SDGs**) in mid-2015 put in place an ambitious framework for realising these objectives and measuring progress against them, not only for UNDP but for all countries that committed to the implementation of this ambitious framework, including Mongolia. As part of Mongolia's efforts to achieve the SDGs, UNDP has been seeking to work more closely with the private sector in order to achieve its twin objectives of poverty reduction and environmental and social sustainability. Indeed, UNDP recognises that limited public resources must be complemented with private-sector capital, dynamism and know-how in order to address social and environmental challenges with lasting, commercially-viable solutions.

Private equity is one of the many strategies that UNDP is promoting in this regard. Private equity funds are particularly relevant because they can pool capital from numerous investors, they involve deep engagement with and value addition to portfolio companies alongside capital, and they concentrate investors and investee companies on sustainability, as investments are exited towards the end of fund lives. Further, fund designs allow for focus on specific sectors and themes relevant to the SDGs.

Since early 2017, UNDP has been assessing the prospects for a private equity fund as part of its private-sector strategy in Mongolia. The proposed MVCIF is the result of an extensive analysis and engagement in

country with private companies, the Government of Mongolia (**GoM**), public sector entities, development finance institutions (**DFIs**), donors, banks, and herder groups and co-operatives, among many other stakeholders.

b) MVCIF in the Context of UNDP's Strategy for Climate Change Adaptation and Resilience in Mongolia

Country Context

The effects of climate change in Mongolia are intensifying. They highlight the inter-relatedness of its economic, social and environmental challenges. Strategies to promote climate-resilient livelihoods are urgently needed as the relationship between climate, pasture land-integrity and livelihood viability comes under further stress. Unless livestock and pastureland management are modified, over-grazing will irreversibly compromise the ecosystem that supports herder and farmer livelihoods.

UNDP sees a role for private capital to shape commercial, sustainable strategies to these challenges. The Fund will seek to invest in, and engage deeply with companies so that their relationships with key suppliers (herders/farmers) can be made sustainable. UNDP considers that impact investment—i.e., combining financial returns via positive social/environmental outcomes with a commitment to rigorous measurement—can help recalibrate supply chains in climate-adaptive and -resilient ways. This is because the many projects focused on access to finance (**A2F**) and co-operative and small enterprise development, have not addressed the demand-side of the equation (larger companies, off-takers, buyers). In other words, they have not taken account of the operating modalities and positioning of herders/farmers as suppliers *within value chains*. MVCIF will seek to repair this disjunction through targeted investment and deep engagement with investee companies to preserve and fortify the herder/farmer economy.

Addressing Entrenched Challenges as Part of a Holistic, Value Chain-Focused Approach

UNDP believes that several entrenched issues must be addressed in order for a value chain-focused investment strategy to succeed. Indeed, the value addition which UNDP brings to the Fund initiative lies in its ability to support the Manager by addressing the following key problems in Mongolia's rural economy:

1. Herder/farmer, co-operative and SME productive capacity

- Building productive capacity of herders/farmers, co-operatives and small and medium-sized enterprises (**SMEs**)² by improving productive practices, quality controls, product consistency/standardisation, business skills and financial literacy; and
- Developing business competency through improved financial management and controls, cash flow-management, forward planning and inventory management.

2. Access to finance

- Making risk capital available to SMEs that explicitly seeks to help them develop the supply chain and establish sustainable, mutually-reinforcing relationships with suppliers; and
- Supporting herders/farmers with *targeted* access to finance, calibrated with the development of the MVCIF portfolio so that finance is made available to herders/farmers in response to tangible, reliable demand for product.³

² For the purpose of this document, the term small and medium-sized enterprise (SME) refers to formal businesses that can absorb equity or loans of approximately US\$500,000 to US\$5 million or more. The term does not refer to micro-enterprises such as kiosks or so-called 'mom and pop shops'.

³ There are two objectives here: (i) to break the vicious circle of livestock mismanagement, over-grazing and constrained herder/farmer cash flows; and (ii) to decouple A2F from collateral based on herd sizes rather than animal quality.

- 3. Building enabling infrastructure and sector-specific capacity:** Many weaknesses in Mongolian SMEs are beyond the financial/institutional capacity of lenders and investors to fix. Thus UNDP will undergird portfolio companies in the Fund by addressing environmental, social and governance (**ESG**) standards, phytosanitary standards, disease control, veterinary services, quality controls, certification and product standardisation, among other issues.

III. Scope of Work

The terms of reference (**TOR**) for the selected Manager are divided into two phases: Phase 1, pre-establishment; and Phase 2, management of the fund. This TOR corresponds to the requirements of Phase 1 and the information regarding Phase 2 is provided solely for informational purposes. The information about Phase 2 is indicative at this stage and is subject to modifications or certain changes based on Phase 1 implementation. Final details about Phase 2 would be shared with the Manager upon completion of Phase 1.

Phase 1: Pre-Establishment

The Manager will undertake the activities below to design, structure and raise the Fund. It should be noted that UNDP is seeking a Manager that approaches Phase 1 as a collaborative partnership. The objective is to optimise the final Fund design by drawing on the investment acumen and track record of the Manager, and the sectoral expertise, deep local relationships and convening power of UNDP. This will significantly increase the chances of achieving the target capitalisation of the Fund. Thus, the core responsibilities of the Manager during Phase 1 will include:

1. **Finalisation of Fund strategy:** Working closely with UNDP, outlining, refining and/or modifying the investment strategy of the Fund based on the expertise and fund management track record of the Manager and prospective investments on the ground;
2. **Optimisation of Fund structure:** Subject to legal advice, determination of the optimal structure for the Fund and its relationship with all relevant parties, notably between the Manager and UNDP as a technical adviser. As stated above, UNDP is open to adapting an existing vehicle or structure, or establishing a new vehicle or structure, whichever is the most efficient, transparent and investor-friendly;
3. **Development of investment pipeline:** Drawing on the networks of the Manager and UNDP, development of a prospective pipeline of concrete investment opportunities for the Fund. The investment pipeline will be critical in determining a realistic target IRR and in securing investor commitments for the Fund;
4. **Preparation of Fund documentation:** In close collaboration with UNDP and with the advice of legal counsel approved by UNDP, development of Fund documentation (investment memorandum (**IM**) or private placement memorandum (**PPM**), as appropriate), and documentation governing the relationship between the Manager and UNDP;⁴
5. **Fundraising:** UNDP will provide full support to the Manager in raising the Fund, mobilising DFIs, donors, public and private-sector investors in its network. UNDP will accompany the Manager in all fundraising

⁴ To the extent that such documentation includes reference to a Technical Assistance Facility and/or an Access to Finance Facility, UNDP will contribute such content.

activities (except in cases where the Manager sees fit to approach investors in its network independently). The emphasis on collaborative fundraising reflects UNDP's view that it is the combination of the Manager's investment track record and UNDP's sector knowledge, sustainable development focus and local relationships which makes the partnership and hence the Fund attractive to investors; and

6. **Negotiation, Documentation and Fund Close:** The Manager will take the lead in negotiating with investors who subscribe to shares in the Fund, in close consultation with UNDP. UNDP will support the Manager in contracting legal counsel to prepare all relevant Fund documentation and negotiate the close(s) of the Fund.

Success factors to trigger Phase 2

Phase 2 is subject to the successful Fund Close at the end of Phase 1. The success indicators to trigger Phase 2 will be based on:

- 1) Legal tenability of Fund structure and Fund strategy established in Phase 1 including but not limited to Fund structure, Fund documentation, Fund strategy execution, investment pipeline development, fundraising and negotiation, and Fund close; and
- 2) US\$20 million raised in the form of Capital Commitment.⁵

Phase 2: Fund Management

Upon establishment of the Fund, the Manager will undertake the usual duties expected of a traditional private-equity fund manager including, but not limited to:

- **Investment Policy Execution:** In accordance with the Investment Policy of the Fund (the **Investment Policy**), sourcing, screening, undertaking due diligence on, managing and adding value to, and exiting Fund portfolio companies;
- **Financial Reporting:** Preparation of timely reports on the financial performance of portfolio companies and the financial position of the Fund management entity, including audited accounts where required;
- **Fund Reporting:** Reporting to investors in the Fund, as agreed in Fund documentation, to provide detailed and accurate reports on portfolio company performance. Additionally, liaising with and supporting UNDP as necessary in the preparation of M&E and development impact reports for investors; and
- **Dissemination of Lessons Learned and Best Practices:** Though mindful that the Manager's primary focus must be on establishing and managing to the best of its ability the investment portfolio, dissemination of lessons-learned and best practices is an important objective of UNDP. Where

⁵ The second success factor to trigger Phase 2 (US\$20 million raised as Capital Commitment) *does not* constitute a deliverables/outputs criterion with which UNDP determines the Manager's eligibility for availing payments during and upon completion of Phase 1. The deliverables/outputs criteria and the Manager's eligibility to request payment during and upon completion of Phase 1 will be determined *solely* by those specified in Section IV of TOR "Expected Outputs and Deliverables". The payment schedule during and upon completion of Phase 1 will be determined upon finalizing the methodology and strategy for delivering the objectives of the Fund (see Section VII of TOR "Selection Criteria"), before the Manager and UNDP enter into the contract.

possible, the Manager will be expected to support UNDP in demonstrating how investment focused on environmental and social sustainability can help to achieve climate-change adaptability and livelihood resilience.

Pre-Establishment Costs and Management Fee

UNDP is seeking to contract a Manager to design a vehicle to certain specifications which UNDP has determined. Upon establishment of the Fund, the Manager will use the annual management fee payable by investors in the Fund to cover routine expenses as outlined in the Shareholders Agreement (the **Shareholders Agreement**) of the Fund.

IV. Expected Outputs and Deliverables and Payment Schedule

Deliverables/ Outputs	Estimated Duration	Estimated Target Due Dates	Payment %
1. Fund Strategy finalized	2-3 months	End April 2019	15%
2. Fund Structure determined	2-3 months	End May 2019	15%
3. Investment pipeline portfolio developed	5-6 months	August 2019	15%
4. Fund documentation agreed	2-3 months	Sept 2019	25%
5. Funding window established/closed	10 months (upon completion of all deliverables)	End Dec 2019	30%

V. Institutional Arrangement

The assignment is to be awarded to a private equity firm with a proven track record in making private-equity investment in the SME sector in frontier markets. The Manager is expected to work closely with UNDP Country Office in Mongolia.

VI. Duration of the Work

The assignment is planned to start on 11th March 2019 and be completed by 30 December 2019.

VII. Scope of Price Proposal

- a) The contract price is fixed regardless of changes in the cost components;
- b) The proposer is advised to include all costs, professional fees, travel (if any) in their proposal.

VIII. List of Documents to be provided in the submission:

1. Bidders profile, which should not exceed fifteen (15) pages, including printed brochures and product catalogues relevant to the services being procured;
2. Certificate of Registration of the business, including Articles of Incorporation, or equivalent document if Bidder is not a corporation;

3. Tax Registration/Payment Certificate issued by the Internal Revenue Authority evidencing that the Bidder is updated with its tax payment obligations, or Certificate of Tax exemption, if any such privilege is enjoyed by the Bidder;
4. Latest Audited Financial Statements including Auditor's Report for the past two 2 years to determine financial standing;
5. All information regarding any past and current litigation during the last five (5) years, in which the bidder is involved, indicating the parties concerned, the subject of the litigation, the amounts involved, and the final resolution if already concluded.
6. Written Self-Declaration that the bidder is not in the UN Security Council 1267/1989 List, UN Procurement Division List or Other UN Ineligibility List.
7. Detailed documentation and evidence to establish fund managers track record as per section 1.2 of the Technical Evaluation Criteria.
8. Detailed documentation, CVs of the teams to establish qualifications and experience required in Technical Evaluation Criteria in section 1.3 to 1.5
9. Detailed Methodology for implementation of the contract which corresponds and satisfies requirements outlined in the section 2.1 and 2.2 of the Technical Evaluation Criteria.
10. Bidder must demonstrate and state in their proposal how the proposal approaches addressing UNDPs objectives on climate-change adaptation and on perspectives on application of technical assistance as per Technical Evaluation Criteria 3.1 and 3.2
11. Bidders proposal to include documentary evidence corresponding to the eligibility, qualification and technical criteria as published in this RFP.
12. Bidders are advised to upload their financial proposals in a password protected .pdf, and the password should only be shared once UNDP requests for it.