



REPUBLIC OF KENYA

Request for Applications

Technical Assistance Funding in the amount of USD 4 million to Small and Medium Enterprise Investees of Financial institutions and Intermediaries

Applications requested by:

Ministry of Trade and Industry

April/May 2008

1. Summary

The Government of Kenya (GOK) wishes to stimulate growth among small- and medium-scale enterprises (SMEs). With the support of financing from the World Bank, the GOK, through the Ministry of Trade and Industry (MOTI) will award a total of USD 4 million in funding (the "TA Facility") to Kenyan domiciled financial institutions and intermediaries to provide additional business support to Kenyan-owned SMEs in which they invest or to which they make loans (the "Recipient Investors"). The TA Facility will be disbursed over a 2.5-year period in "TA Grants" of amounts varying with the needs and absorptive capacity of the individual SMEs..

The TA Grant proceeds will be used to pay expenses related directly to the provision of technical and managerial assistance to SMEs in which a Fund Manager invests. Each TA Grant must be employed over a 12-month period.

Available for download from www.msmekenya.org Website are the instructions, forms, and documentation (together, the "Application") which must be provided by any organization applying for a TA Grant (an "Applicant").

2. Background

The World Bank has provided financing to the GOK toward the costs of a "Micro, Small and Medium Enterprise Competitiveness Project". The MSME Project consists of three components: Access to Finance, Strengthening Enterprise Skills and Market Linkages, and Business Environment. Under the Access to Finance component is a subcomponent, the "TA Facility", which will award USD 4 million in grants of various sizes to new or existing financial organizations to pay costs of technical and managerial assistance to SMEs in which the organizations invest through any form of financing (the "Investee SMEs"). The present RFA pertains exclusively to the TA Facility and the individual TA Grants.

The purpose of the TA Facility is to increase the effectiveness of financial products offered to the SME sector by the Kenyan financial market. Additionally, the TA Facility is intended to induce financial institutions and intermediaries to offer a greater volume of financing to SMEs by improving the performance and reducing the risk of SME investments. There are many SMEs in Kenya which, despite their high potential, have been unable to access financing from existing institutions in the financial sector. Such situations may be due to the inability of the SME to offer sufficient loan collateral or to operational issues within the SME requiring more hands-on assistance than commercial banks and leasing companies, for example, are normally able to provide. It is a key objective of the TA Facility to provide a greater rationale for financing such previously "unbankable" SMEs.

3. Definitions

3.1 "SME"

For the purposes of the TA Facility a SME which may be the ultimate recipient for assistance from a TA Grant is defined as a commercial business having the following characteristics:

- current annual turnover of no more than USD 1 million (USD meaning here and henceforth, US dollars or their equivalent in Kenyan shillings)
- formally registered and taxable;
- owned in the majority by Kenyan nationals residing in Kenya;
- not engaged in any of the following as its core business:
 - finance, financial intermediation, or brokerage of any kind;
 - real estate speculation (as opposed to real estate development);
 - arms manufacturing;
 - production or sale of tobacco products or alcoholic beverages containing more than 15% alcohol, or
 - activities harmful to the environment or to its workers according to World Bank policies and Kenyan law.

Furthermore, an Investee SME must not be owned by, or have any extensive involvement with, members of the family (immediate through first cousin) of management personnel of the Fund Manager or any entity engaged by the Fund Manager to manage investments on behalf of the Fund Manager (an "Investment Manager").

3.2 "financial institution or intermediary"

For the purposes of the TA Facility, "financial institution or intermediary" means any incorporated entity whose core business activities include the provision of financing to commercial enterprises. This includes both commercial banks and non-bank intermediaries such as leasing companies, factoring companies, and other credit institutions as well as venture capital and private equity funds.

3.3 "TA Expenses"

For the purpose of the TA Facility and TA Grants, "TA Expenses" refer to all allowable expenditures (as defined below in Section 5) incurred by the Service

Provider for assistance to Investee SME during a particular period of time. All the TA expenses will be financed by the TA funds.

Furthermore, TA Expenses for any period mean the sum of all paid invoices representing completed TA interventions during that period.

4. Eligibility

It is understood that Applicants will be financial institutions and intermediaries as defined above in Section 3. A Fund Manager must have the following attributes:

- legally domiciled in Kenya or having a registered representative office in Kenya;
- financial solvency as demonstrated by audited financial statements from its most recent prior fiscal year;
- evidence of internal policy permitting financing of SMEs as defined in Section 3 above
- extensive experience financing SMEs in Kenya
- a financing model that is proven to be commercially viable and sustainable
- management teams managing the day-to-day business
- experience, success record and reputation of the fund manager.

5. Uses of TA Grant Proceeds

5.1 Uses of TA Grant Proceeds for Assistance to Investee SMEs

The TA Facility will provide TA Grants of up to a maximum of US\$ 100,000 each. TA grants may be used only to pay all or a portion of costs of technical and managerial assistance provided by the BDS provider.

Any such disbursements of TA Grant proceeds are payable subsequent to receipt of progress reports as detailed in the TA contract. Such requests and reports are to be submitted to a PMC (through the SME Solutions Centre) engaged by the GOK to manage the TA Facility and other aspects of the MSME Project.

5.1.1 Allowable TA Expenses:

The following are Allowable TA Expenses for which TA Grant proceeds may be used:

- ❑ engineering or other technical services intended to create or enhance production or distribution of products or services of an Investee SME;
- ❑ other technical consultancies related to the operations of an Investee SME;
- ❑ assistance in the preparation of a business or marketing plan of an Investee SME;
- ❑ legal assistance relating to business formation or reorganization of an Investee SME (excluding litigation);
- ❑ legal assistance relating to licensing agreements, establishment of trademarks and patents, or other protections of intellectual property and proprietary technology of an Investee SME (excluding litigation);
- ❑ recruitment of key personnel of an Investee SME;
- ❑ creation of Internet capability and other information and communication technology capacities of an Investee SME;
- ❑ creation of customized accounting or management information systems for an Investee SME;
- ❑ non-operational costs directly associated with qualification by an Investee SME for a specific certification or license, including ISO certification, which may be necessary or advisable for an Investee SME in order to engage in an existing, expanded, or new business activity;
- ❑ payment for one-time acquisition and installation of custom or standard commercial software (e.g., Excel spread sheet programs or QuickBooks) which will thereafter be the Investee SME's sole accounting, management information, and reporting system; and
- ❑ training of any employees of an Investee SME, as further defined below in this Section.

For the purpose of defining Allowable TA Expenses, "training" refers to the process of training individuals or groups of individuals or entities by third parties with professional training qualifications. Training methods may include group sessions or one-on-one

sessions using in-person contact or other communication modes (for example, teleconferences, videos, publications, and electronic media). Allowable TA Expenses associated with training include:

- ❑ distinct skills training for the employees of an Investee SME which is directly related to the management and/or operations of the Investee SME and which provides skills in areas where the Investee SME's employees lack adequate background or experience;
- ❑ training for an Investee SME's workers in the operation of particular software programs to be used in the Investee SME's business or particular types of manufacturing equipment to be used in the Investee SME's operations; or
- ❑ literacy or other similar training for a Investee SME's workers (provided that a Recipient Investor can demonstrate a direct relationship between such training and the business development of the Investee SME).

5.1.2 Non-Allowable TA Expenses

The following are Non-Allowable TA Expenses for which TA Grant proceeds may not be used:

- ❑ payment of costs incurred by a Recipient Investor, Investment Manager, or any affiliate of either, associated with the identification of Service Providers;
- ❑ payment for equipment, materials, or supplies (other than software as described above) of either an Investee SME or any other physical or legal persons;
- ❑ payment for marketing or publicizing of a Recipient Investor, including its TA activities, or for the development of new business for a Recipient Investor;
- ❑ provision of financial assistance in the form of money, or in the form of property in lieu of money (except for the initial one-time costs of creating a reporting and information system as mentioned above);
- ❑ maintenance of an accounting or information system for the actual or potential Investee SME on an ongoing basis for an indefinite period of time; or
- ❑ audits or review of business financial statements and other similar activities conducted for the purpose of assessing the

Investee SME and determining whether to invest in the business.

- ❑ payment for any form of assistance which the Facility Manager reasonably deems not to constitute Allowable TA;

The following training services are Non-Allowable TA Expenses for which TA Grant proceeds may not be used:

- ❑ general education for an Investee SME's managers (for example, classes to obtain an MBA degree); and
- ❑ life skills or personal development training for a Investee SME's workers (for example, classes to obtain an academic degree or certification, personal finances management training).

5.2 Key Restrictions on the Use of TA Grant Proceeds

Certain abuses of TA Grant funding will be considered cause for immediate and permanent cessation of disbursements of TA Grant proceeds to a service provider. Furthermore, non-compliance with these "Key Restrictions" may be considered cause for legal action against a Fund Manager. Key Restrictions include the following:

5.2.1 No Tie-In with Investment

A Fund Manager may not require an actual or potential Investee SME to which it provides TA to accept any financing terms or other financial relationship with a Fund Manager , or to alter the terms of an existing relationship, as consideration for the TA. A Fund Manager must provide the TA to its Investee SMEs indirectly through third parties with no requirement that the actual or potential Investee SME provide consideration to a Fund Manager or Investment Manager in exchange for the TA.

5.2.2 TA to Investee SMEs Only

TA Grant proceeds can only be used to provide TA to Investee SMEs.

5.3 Additional Key Restrictions

TA Grant proceeds may not be used for any of the following purposes:

- ❑ to create or supplement a reserve or contingency fund or account;

- ❑ to provide financial assistance, including but not limited to property, sub-grants, and seed money for business ventures, (except as related to computer and software for the provision of operational and financial reporting systems as provided for above in Section 5.1.1);
- ❑ promotional items and memorabilia, including models, gifts, prizes, and souvenirs;
- ❑ direct costs of entertainment, including amusement, diversion and social activities, and costs directly relating to such entertainment costs (such as tickets to shows or sporting events)
- ❑ meals, lodging, rentals, transportation, and gratuities on behalf of any person, outside the terms of a contract with a Service Provider as such expenses are for the Service Provider and are related directly to the TA provided by the Service Provider);
- ❑ contributions and donations (including cash, property, and/or services) or similar gratuitous transfer of funds or of goods or property purchased with monies provided through the TA Facility;
- ❑ fundraising;
- ❑ lobbying or any other costs associated with government relations; and
- ❑ any activity which is illegal under Kenyan law.

6. General Terms and Conditions

6.1 Qualifications for Award of a TA Grant

6.1.1 Attributes of the Applicant

Criteria for selection of an Applicant for award of a TA Grant will include, but not be limited to, the following:

- ❑ reputation of the Applicant for competence, commitment, and integrity;
- ❑ investment (or lending) track record of the Applicant
- ❑ experience in corporate finance at levels below USD 500,000;

- ❑ experience in investment in Kenya SMEs;
- ❑ familiarity with Kenya
- ❑ the extent to which the Applicant's proposed use of TA Grant proceeds is in furtherance of the purposes of a TA Grant;
- ❑ the presence of adequate management support systems and other resources (*e.g.*, "back office" and supervision); and
- ❑ the strength of the Proposed Investor as demonstrated by audited financial statements.

6.2 Right to Accept or Reject

The PMC acting on behalf of MOTI reserves the right to select or reject any one Applicant or to reject all Applicants if no appropriate Application is submitted. Furthermore, the Project Management Contractor reserves the right to select an Applicant even when all qualification criteria stated or implied herein are not met by the Applicant and similarly reserves the right to reject an Applicant even when all such criteria are met by the Applicant.

6.3 Additional Information

The Project Management Contractor reserves the right to contact any Applicant for clarification of information submitted and to contact parties with whom the Applicant has current or past business relations in order to verify information submitted by the Applicant.

6.4 Review Process

The Project Management Contractor (PMC) has been selected by MOTI in consultation with the World Bank and is authorized to approve or reject Applications. The PMC's decisions and administrative performance are subject to periodic review by MOTI and the World Bank.

6.5 Confidentiality

Any due diligence performed in order to verify or clarify information submitted by Applicants will be undertaken directly by these same employees or agents of the PMC

6.6 Taxation and Fees

No fees will be imposed upon TA grants and no taxes will be payable by a Recipient SME on TA Grant proceeds.

6.7 Cause for Suspension or Termination of Disbursements of Proceeds

In considering whether or not to apply for a TA Grant and in making representations in the Application, the Applicant should bear in mind the following:

6.7.1 Deviations from Non-Financial Representations

Any significant deviation by Fund Manager from the description of planned activities provided in the Application may be deemed cause for suspension or termination of a TA Grant. The PMC reserves the right to make subjective judgments in this regard, but only serious and significant deviations will be considered cause for change in the status of a TA Grant.

6.7.2 Deviations from Illustrative Projections

Applicants are required to provide "Illustrative TA Expense Projections" for the Period of a TA Grant only with regard to numbers, costs, and categories (*e.g.*, "Accounting/MIS assessments" or "international technical consultants") of TA interventions to be provided to SME Investees.

6.7.3 Changes in the Status of a Recipient Investor

Significant changes in the ownership, capacity, or solvency or other circumstances of the Recipient SME from those represented in the Application must be reported immediately to the PMC and may also be deemed cause for suspension or termination of a TA Grant.

7. Application

7.1 Submission of Application

"Application" refers to the completed Application Form, all Exhibits, and the Illustrative TA Expense Projections. Accompanying the Application must also be a Declaration of Principals by which two persons (the "Principals") acting on behalf of the Applicant certify the accuracy of the Application. Each Applicant must submit four complete copies of the entire Application. All copies of the Application must be placed in a single, sealed envelope or box and delivered to the following address:

The Project Manager,
Project Management Contractor,
PricewaterhouseCoopers
3rd Floor, College House
University Way/Koinange Street
PO BOX 43963-00100
Nairobi, Kenya
[e-mail:info@msmekenya.org](mailto:info@msmekenya.org)

No further copies of Applications will be made and all copies will be returned to the Applicant subsequent to the decision to reject or approve the Application.

7.2 Checklist of Items to be Submitted

- Declaration of Principals
- Application Form
- Exhibits, including:
 - A - Legal Proceedings Questionnaire
 - C – Information Regarding Other Activities and Relationships
 - D - Illustrative TA Expense Projections
 - E – Additional Information