
CALL FOR PROPOSALS

EQUITY FUND OF FUNDS PROGRAM

under the Catalyzing Entrepreneurship for Job Creation Project

December 26, 2021

CONTENTS

Section 1. Introduction and Context.....	3
Section 2. Program Overview.....	4
Section 3. Guideline to Applicants.....	4
Section 4. Evaluation Criteria.....	15

Section 1. Introduction and Context

As part of the Egyptian government's continuous efforts to promote the economy, support the entrepreneurial environment and its special focus to benefit from Egypt's resource of young innovators and entrepreneurs, MSMEDA invites all institutions working in the field of venture capital and investment willing to support start-ups and small and medium-sized companies to be able to transform innovative ideas with high growth potentials into applications and sustainable projects that contributes into the Egyptian GDP and economic growth.

This program also aims at building an early stage entrepreneurship and investment ecosystem, which is considered one of the key factors to achieve Vision 2023's Sustainable Development Goals, by emphasizing on the importance of providing all means of support to innovative ideas and optimizing the utilization of all available resources to realize huge economic gains, especially that youth represents the majority of the Egyptian population which is a comparative advantage if they were well employed.

MSMEDA, as the national entity responsible for the development of MSMEs and promoting entrepreneurship in Egypt, is therefore delighted to announce the establishment of Egypt's first \$50M Funds of Funds Program - as part of the "CATALYZING ENTREPRENEURSHIP FOR JOB CREATION PROJECT" which is funded by the World Bank - to support the development of the entrepreneurship finance ecosystem in the country and avail funding to existing and new fund managers. This new program aims to support local and international Risk Capital Intermediaries (RCIs) to operate and invest in Egypt across all the different funding stages from accelerators, angel funds, VC funds, and SME funds to support Egyptian startups and innovative SMEs. The program thereby aims to deepen and address the key funding challenges that fund managers face when raising risk capital.

All applications for investment under the MSMEDA Fund of Funds program should conform to the terms and parameters of this Call for Proposal.

This Call for Proposals (CFP) is being issued to invite fund managers (or other appropriate organizations) to submit proposals to establish/develop RCIs based on the parameters of the MSMEDA Fund of Funds program.

Proposals should be sent to ivcd@msmeda.org.eg

Section 2. Program Overview

Background & Opportunity

Traditional financing institutions in Egypt do not readily invest in innovative, start-up and early-stage firms given their inherent risk and small investment size. **The entrepreneurship and early stage investment ecosystem in Egypt is in the early-stages of its development. Despite encouraging progress and momentum over the past few years, the eco-system faces significant gaps in startup financing, as well as limitations in its ability to support entrepreneurs to create and develop viable high-growth businesses.**

Therefore, MSMEDA decided to initiate this Fund of Funds program whose **objective is to increase the supply of seed, early stage and venture capital going to innovative startups and young SMEs with high potential for growth and job creation.** Equity and quasi equity (Venture debt, mezzanine) funding to beneficiaries under this program will be provided indirectly through equity, and quasi equity investment in privately managed Risk Capital Intermediaries (RCIs) that target innovative high-growth potential startups and SMEs. MSMEDA – through the program - will invest in a range of RCIs (Angel funds, Seed/Accelerator funds, SME and VC funds and other qualified investment companies).

This Program is one among several financial and non-financial programs implemented by MSMEDA; each of these programs has its very own separate and integrated framework. MSMEDA will cooperate with the selected RCIs as partners supporting innovative start-ups, small and medium enterprises in various stages, starting from pre Seed & seed through growth and expansion stages.

The program's design places emphasis on private sector management, to leverage the technical capacity and know-how of private funds. MSMEDA as an anchor investor will evaluate and make investments in selected RCIs based on a transparent selection process. To assure investors and fund managers of the credibility and transparency of the project, selection of RCIs will be done through an Investment Committee (IC) composed primarily of independent experts from the private sector. The Government will not be involved in the management or selection of RCIs/funds and MSMEDA as project manager will solely execute investments and exits decided upon by the Investment Committee and will in no way influence or modify selections made by the IC. Clarity on RCI's governance and investment selection process and independence from interference by vested interests will be part of MSMEDA's evaluation criteria and selection process. These measures embody the principles of responsible governance, equity and transparency by ensuring the independence of the selection process, eliminating the risk of capture by select groups and thorough filtering, and accountability measures of the investment decision-making bodies.

Under this program MSMEDA will enable investments into startups and high growth SMEs through eligible RCIs, whose mandate will be to invest in such companies. This responds to the fact that MSMEDA's comparative advantage is not identifying investable companies; and, as proven in other projects, it is best practice to leverage the technical capacity and know-how of private funds and to minimize political interference in investment decisions.

Key program parameters

MSMEDA will serve as an anchor investor in RCIs whose mandate is to invest in startups and high growth SMEs. Key program parameters include:

- MSMEDA's maximum investment contribution per RCI is EGP 80 million or Equivalent in US\$ and maximum share is 40%.
- At-least 50% of the RCI's fund capital should come from either private investors (in Egypt and/or overseas) and/or international development finance institutions (DFIs). If this 50% threshold cannot be met, then at-least 30% of the RCI fund capital may come from private investors (in Egypt and/or overseas) and/or international DFIs, with at-least an additional 30% coming from regulated domestic public commercial financial institutions.
- No single investor/limited partner in an RCI should have more than 50% of the RCI's total capital.
- At least 60% of the RCI's investment portfolio needs to be in companies whose **locus of operations and principal operating presence is in Egypt.**
- MSMEDA will consider investment in RCIs managed by both **Experienced Fund Managers:** having successful proven track record, and **First Time Fund Managers:** with relevant knowledge and experience.

Section 3. Guidelines to Applicants

Proposals should clearly articulate the proposed structure and strategy to establish and manage the RCI on sound commercial investment principles and objectives, consistent with the objectives and parameters of the MSMEDA Fund of Funds program. They must also clearly demonstrate the RCI and management team's relevant experience, competencies, understanding, and approach.

Proposals should be presented as a final draft, with possibility of further refinement if proposal is accepted for further consideration and evaluation. Some important elements to demonstrate are:

- Proven leadership and management team managing the RCI, in particular the:
 - Experience and track record in early stage and venture investing in similar markets, ideally with direct experience in Egypt.
 - Experience in mentoring/supporting early stage businesses, and working closely with startup/SME management teams to promote business sustainability and growth.
 - Experience or capacity to bring in expertise in evaluating opportunities and early-stage technology/technology enabled businesses.
- Understanding of Egypt's macroeconomic and relevant sector/market conditions in general and technology/ technology enabled SMEs in Egypt or similar contexts, in particular.
- Ability and track record to leverage existing and additional sources of RCI capital/funding (beyond MSMEDA investment).
- Established financial management and reporting/M&E systems and processes and the capability to meet MSMEDA requirements on safeguards and fiduciary matters.
- Existing presence or ability and commitment to establish principal operating presence in Egypt.

Detailed parameters

The table below outlines some of the key parameters for the program. Given MSMEDA's unique nature, applicant organizations are encouraged to consider their own experience with similar opportunities in their proposal. All proposals will be subject to further review and evaluation, and final negotiations between MSMEDA and selected RCI(s).

Investment Objectives, Focus and Approach

- Overall Approach - The RCI should be managed as an investment fund that addresses the financing gap for innovative start-up and early -stage firms, and/or growth-oriented SMEs in Egypt, thereby contributing to strengthening the entrepreneurial eco-system in the country. The RCI should target seed/early-stage/growth stage venture and/or SME venture investment opportunities in companies with a clearly articulated business plan, in which the RCI serves as a critical enabler of company development and growth. The RCI's management team would need to assess the viability and commercial potential of each investment and structure the financing to ensure appropriate influence, commercial viability, an appropriate return on the investment, and potential exit opportunities. Investment parameters should follow best practices and be designed to provide market and investment discipline.
- Investment Stages - RCIs may invest in different stages of a company's life cycle. Investments per company (by stage) could be as follows:
 - Seed and angel stage: USD 100,000 to USD 700,000.
 - Early stage: USD 700,000 to USD 1,500,000.
 - Growth stage: USD 1,500,000 to USD 3,000,000.Investments can be milestone-based, with 2-3 investment rounds for firms showing growth traction.
- Geographic Focus – At least 60% of the RCI's investment portfolio needs to be in companies whose **locus of operations and principal operating presence is in Egypt**, even if these companies have affiliate operations and are selling products in other countries. Up to 40% of the RCI's investment portfolio may be in companies operating outside Egypt, with a preference for the Middle East, Africa and other relevant emerging markets.
- Investment Instruments - The RCI can utilize a range of financing instruments to accommodate the wide target of sectors and to accommodate the varied financing needs of early stage ventures. Investment instruments could include: equity, convertible notes, hybrid and mezzanine with self-liquidating structures, and venture debt. As early-stage deals often require follow-on funding before such investments can be exited, instruments used should take later stage co-investors into consideration.
- Commercial investment orientation - The RCI should seek to generate market rate return on each investment made, to promote commercial discipline and market driven mind-set.
- Technical Assistance to Investees - The RCI's management team should also expect to be hands on in technical assistance provision to support investee companies, by working closely with the investee companies to advance each company's viability and commercial success. We anticipate that the RCI

would play a strong role in mentoring senior management and developing good corporate governance practices in its investee companies for long-term viability.

- Negative List - Eligible start-ups/SMEs considered for investment by RCIs may not be engaged in any of the activities or sectors included and described in the Annex.
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Institutional Arrangements

- MSMEDA Investment - MSMEDA will provide investment up to EGP 80M (approximately USD 5 Million), as an anchor investor and Limited Partner (LP) in the RCI. MSMEDA's investment will be capped at 40% of the RCI fund size (actual funds raised/committed). MSMEDA's investment in an RCI will be on pari-passu terms to those of other investors/LPs.
- RCI Structure -The RCI will be an independent investment vehicle, either domiciled in Egypt or abroad. RCIs are expected to be traditional limited life funds, although appropriate alternative structures may also be proposed that can demonstrate the RCI's objectives, align with best practice for legal structure of investment vehicles, and be informed by the preferences of potential RCI investors/limited partners (LPs). The RCI must have the ability to receive and be a custodian of MSMEDA and other LPs' funding, including compliance with the relevant fiduciary and policy requirements associated with MSMEDA and the Fund of Funds program.
- RCI Management - The RCI will be managed by a professional fund management company with an appropriate investment commitment in the RCI (consistent with venture capital industry norms). The RCI's fund management and operating team must be based in Egypt. The RCI must have at-least two management team members ("key persons").
- Other - MSMEDA will typically invest in only one RCI for each fund manager. In exceptional cases, MSMEDA may consider investing in two funds/RCI managed by the same fund manager under certain conditions:
 - The two RCI investment opportunities augment the strategy and vision of the MSMEDA Fund of Funds program.
 - The fund manager is an experienced fund manager with proven track record (not a new/first time fund manager).
 - The individual RCIs target different funding stages.
 - There is a clear and justified reasoning for accepting and approving such a case (e.g. Addressing a gap, a unique model, etc.)
 - The RCIs are run independently with different teams, and there is no conflict of interest between them.
- Any undistributed financial returns must be recycled back into the fund/RCI or used for purposes approved by MSMEDA.
- Use of Funds - The investment funding provided by MSMEDA will contribute to the investment pool of the RCI as well as typical fees and operational expenses, build-out/set-up costs for a fund. Proposals should include the expected split between these expenses.

<p>RCI Fund Management</p>	<ul style="list-style-type: none"> • RCIs will be managed by qualified and experienced fund managers. Proposals can be submitted by experienced fund management companies with a proven track record of managing early-stage, venture capital and/or SME funds. • The RCI will have a dedicated fund management team that has the experience to build and manage a pioneering early-stage investment portfolio, grow the fund by bringing in additional investors/funders, and meet the fiduciary and funding requirements associated with MSMEDA funding. • MSMEDA will consider proposals from new/'first-time' fund managers provided that the leadership, management and investment teams are experienced in early-stage/SME investing and have built an investment track record that demonstrates an ability to build, manage and exit investments into start-ups/SMEs. • MSMEDA will not invest in RCIs/Funds where the fund management company has an executive, director, and/or shareholder who holds political office and/or is a government official.
<p>Target Fund Size and Additional Funding</p>	<ul style="list-style-type: none"> • <u>RCI Fund Size</u> - In addition to MSMEDA investment, RCIs are expected to attract additional investment funding to become a financially sustainability investment facility/fund. While no specific limits have been established, the RCIs sizes are expected to be up- to USD 50 Million and no less than USD 5 Million. Proposals with RCI fund sizes greater than USD 50 million may be considered in cases where the proposed RCI brings strategic value to the MSMEDA Fund of Funds program. • <u>Sources of Investment</u> - At-least 50% of the RCI's fund capital should come from either private investor (in Egypt and/or abroad) and/or international development finance institutions (DFIs). If this 50% threshold cannot be met, then at-least 30% of the RCI fund capital may come from private investors (in Egypt and/or overseas) and/or international DFIs, with at-least an additional 30% coming from regulated domestic public commercial financial institutions. • <u>Contribution limits by other Investors</u> - No investor/LP in an RCI may hold more than 50% of the RCI's capital. • Candidate RCIs will be expected to clearly demonstrate commitments to leverage additional investment with a well-articulated approach, strategy and mechanisms to attract additional funding. It would be useful to clearly indicate the level of commitment to leverage and include "letters of interest or intent" from other interested investors to make a strong case for MSMEDA investment.

<p>Key Investment Principles and Policies</p>	<ul style="list-style-type: none"> • In describing an investment strategy, proposals should describe how much exposure the RCI will take per investee company • Key investment principles, policies and exposure should also be stipulated.
<p>RCI Target Return</p>	<ul style="list-style-type: none"> • Proposals should describe what financial returns will be targeted by the RCI. In general, it is expected that target returns will be pegged to industry benchmarks and within the regional economic/venture capital context, but proposals should also indicate what is deemed realistic in striking a balance between the RCI strategic and financial objectives.
<p>RCI Management Fees, Performance Based Compensations and other and Other Expenses</p>	<ul style="list-style-type: none"> • Proposals should include the cost structure of the RCI which may be a traditional fund management fee structure, or an alternative structure that may be more appropriate. Such a cost-structure should take into account the financial sustainability objectives of the RCI and ability to attract additional investors into the RCI. • Should the proposal present it as such, it is anticipated that RCI management fees will be within industry standards and relevant to the regional economic/venture capital context, while considering the nature of the RCI. • Proposals may also include a performance-based compensation element for the fund manager which may be a traditional carried interest or an alternative appropriate structure. It is expected that proposals clearly articulate how it is envisioned such a model be developed and implemented in consideration of the RCI’s core objectives and return expectations of RCI investors. • Proposals should also present a budget based on anticipated costs, detailing the expenses associated with setting up the fund and additional costs such as fundraising. Details (costs items, budget) and an explanation for any other expenses/costs, if expected, should be highlighted, and such costs should be subject to an expected budget limit/cap.
<p>RCI Governance</p>	<p>Proposals should describe governance structure appropriate for the RCI. The fund governance framework should include:</p> <ul style="list-style-type: none"> • An Investment Committee of qualified and seasoned experts in venture investing, sector knowledge and/or entrepreneurship that oversee the investment portfolio. The Investment Committee may include representative(s) from the fund management team. • A Board or Advisory Committee that will provide overall governance of the RCI which will supervise the overall fund mandate.

Policy Requirements	<ul style="list-style-type: none"> Proposals should outline and include the application of best practices in investment operations in identified policy areas, including anti-corruption and anti-money laundering practices, social and environmental matters, and corporate governance.
Reporting	<ul style="list-style-type: none"> Reporting policies, conditions and frameworks should be well defined. At a minimum, annual audited financial statements and management reports should be provided within 90 days of fiscal year end, and quarterly financial, management and performance reports within 30 days of fiscal quarter end. Such reports should contain all necessary information such as portfolio company-level information, confirmation of environmental and social compliance and other environmental and social reports.

Proposal Format

Although there is not a prescribed, specific proposal format, proposals should cover the following areas:

1. Background overview of the applicant organization/fund manager;
2. Overarching objectives for the RCI including articulation of vision/mission, target fund size, what defines success, and how the RCI aligns with the strategic objectives/vision of the applicant organization(s) and the MSMEDA Fund of Funds program;
3. Expected financial returns and other results, milestones and outcomes, and key performance indicators to measure results;
4. Overview of the market and investment opportunity for the RCI and summary of the investment pipeline;
5. RCI investment philosophy, strategy and approach – including but not limited to:
 - Types of firms to be targeted
 - Target sectors (and sub-sectors) if applicable
 - Investment thesis and portfolio strategy
 - Deal/investment size and types of investment instruments
 - Investment holding period and exit strategy
 - Approach to managing investments including provision of technical assistance
 - Approach to leveraging co-investment and follow-on investment for investee companies
6. Description of RCI fund investment and operating model and process;
7. Institutional arrangements and legal structure, including RCI legal structure, institutional/legal relationship between RCI, fund management entity, and other investors/LPs;
8. Key terms between RCI/fund and its investors and managers;
9. Management and governance structure including:
 - Fund Manager background and track record

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- RCI management and investment team composition and roles as well as investment committee and other mechanisms for fund governance (Board/Advisory Committee)
 - Overview of management and leadership team, and key people involved in governance
10. Plan and strategy to raise/arrange additional funding and types of investors and funders to be targeted;
 11. Key partnerships and collaboration, including with funds, co-investors and follow-on investors (domestic and international), and other key stakeholders in Egypt and/or overseas;
 12. Process and functionality for RCI financial management, fiduciary management, environmental and social safeguards, progress reporting, portfolio monitoring / evaluation;
 13. RCI implementation plan and timeline including but not limited to: establishment and launch activities, raising additional funding, time-frame for making, managing and exiting investments;
 14. RCI Budget and financial plan, including but not limited to details on use of MSMEDA and other sources of funding, operating/management costs and fees, investment and TA pools, target financial returns;
 15. Key Risks and Mitigants.

Additional Information

As appropriate, please also provide the following relevant information to accompany proposals for the fund:

- (i) RCI financial model and budget accompanying the financial plan;
- (ii) Copies of any available marketing materials such as investor presentations, private placement memoranda or annual meeting reviews;
- (iii) A detailed description of the Fund Manager and the RCI management team's historic activity (to the extent not present in the core proposal) – investing experience and track record, deal sourcing relationships, attractiveness of target investment opportunities, experience with technical assistance delivery;
- (iv) Profile of senior management team and proposed investment committee/Board members, including names, relevant experience and detailed biographies;
- (v) Description of presence in Egypt along with names of full-time professionals based on the ground;
- (vi) List and summary overview of potential pipeline opportunities;
- (vii) List and overview of potential funders and investors into the RCI;
- (viii) Any relevant affiliations and/or partnerships with Egypt-based research institutions, universities, and companies;
- (ix) Networks and partnerships with Egypt and international investors, funders, corporations;
- (x) Appropriate documentation for the following (an affirmative response is required and N/A or None are appropriate responses):
 - Any conflict(s) of interest
 - Any criminal conviction(s)
 - Any investigation(s) by any governmental organization

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- Any pertinent litigation(s) regarding the conduct of the entity

If a candidate RCI is unable to comply with the requirements in the call of proposal, the team must so indicate in its submittal and provide a complete explanation. Additionally, in the event that a candidate organization is not able to comply with the requirements, the team is encouraged to provide alternative recommendations or remedies where applicable for consideration.

Section 4. Evaluation Criteria

Proposals will be evaluated on the following criteria.

Evaluation Criteria	Description
Fund manager experience and track record	<ul style="list-style-type: none"> • Relevant experience • Composition of the team, investment track record (including evidence of past exits) and balance of skills • Ability to provide relevant added value to building out and managing the RCI and supporting portfolio companies • Ability to provide adequate commitment for the life of the fund
Overall plan and approach to the establishment, deployment and management of the RCI	<ul style="list-style-type: none"> • Defendable investment thesis, strategy and model including: stage of investment, ticket sizes, investment instruments., pipeline building, post-investment management/support, exit strategies. • Minimum geographic focus on Egypt. • Milestones, steps and timelines for establishing the RCIs and proposed fundraising targets • Organizational/Management structure • Key investment policies, philosophy and strategies • Deal sourcing strategies, investment targets/milestones and illustrative pipeline • Business mentoring approach and philosophy • Leverage/fund raising strategy and commitments • RCI financial parameters, financial projections and relevant ratios/benchmarks (including return expectations), and expected capital drawdown and deployment/distribution flows • Risk, challenges and mitigation
RCI Fund Structure and Economics	<ul style="list-style-type: none"> • Viable fund size • Fund structure including domicile/structure, and management and governance arrangements • Key terms of investment into RCI

	<ul style="list-style-type: none"> • RCI management fees and other expenses • RCI financial return targets and projections
Expertise in Egyptian economy early-stage and SME investing	<ul style="list-style-type: none"> • Understanding of the country's macro-economic and relevant sector/market conditions. • Understanding of the needs of start-ups and SMEs in Egypt or similar contexts • Experience and expertise in evaluating and investing in Egyptian early-stage businesses • Experience in mentoring early stage businesses, and working closely with management teams to promote business sustainability and growth
Long-term commitment	<ul style="list-style-type: none"> • Long-term strategic commitment of the Fund Manager and key persons to the mission, vision and objectives of the RCI
Egyptian presence	<ul style="list-style-type: none"> • Existing principal operating presence of the fund manager in Egypt or ability and commitment to establish an active principal operating presence in Egypt. • Demonstrated pipeline of potential investments in Egyptian startups and/or SMEs • Demonstrated network with relevant private and public sector organizations in Egypt
Capability to leverage funding for fund expansion	<ul style="list-style-type: none"> • Capability and track record to leverage existing and additional sources of capital/funding. • Committed investors (if any) and pipeline of investors for proposed RCI
Reporting, financial management, and impact assessment plan	<ul style="list-style-type: none"> • Established financial management and reporting processes, monitoring and evaluations capability and ability to develop safeguards process and other policy requirements