Addendum Number: # 01

Addendum Name: Identifying Opportunities for Action in Institutional Investment

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Identifying Opportunities for Action in Institutional Investment
Addendum # 01
to
The United States Agency for International Development's (USAID)
Broad Agency Announcement (BAA) for Catalyzing Private Investment

I. Background: Catalyzing Institutional Investment in Developing Countries

Institutional investment[1] (both in developed and developing countries) is huge and largely an untapped pool of capital for investment in USAID's presence countries. Facilitating investment of this capital could provide the dual benefit of relieving the investment deficit, while providing attractive returns to the holders of that capital and helping them to meet their risk, diversification, and return preference (while contributing to global development as well).

For example, almost all pension fund investment flows to emerging market countries are invested in traditional assets (e.g. sovereign and investment grade debt, real estate, listed equities). Further, in developing countries the majority of local pension funds can invest only in exchange-listed securities, hampering their ability to promote broader financial sector deepening.

Increasing institutional investment into emerging markets is a multi-faceted problem. The hurdles to significantly and rapidly expanding institutional investment are many and may include (but are not limited to):

a. <u>Education</u> – Many institutional investors in the emerging markets are unfamiliar or lack comfort with alternative assets classes like private equity funds, project finance, or securitized assets. Some of the potential recipients of investment lack experience working with financial institutions, and may have difficulty preparing documentation in a format suitable for institutional investors. Similarly, many institutional investors from developed countries are not comfortable investing in many emerging markets due to a lack of experience and information.

b. <u>Connectivity</u> –The costs for institutional investors to find, verify, and perform due diligence on individual investments are high. Moreover, without an "honest broker" to connect the separate sides of the transaction, trust can be limited. As the official development agency of the U.S. government, USAID can help convene lenders and borrowers, and elevate awareness of financing constraints to a higher level

[1] Institutional investment is one source of private capital and can include: insurance companies, pension funds, banks endowments and hedge funds.

than without U.S. government support. This networking presence can improve collaboration among different actors.

c. Risk Mitigation – Institutional investors' willingness to fund projects in developing countries, absent enhancements that mitigate some risks can be limited. Even with reasonable assurance of repayment, some investors' perceptions of country risk preclude them from funding transactions.

d. Financial Sector Regulation – Some institutional investors are barred from investing in certain asset classes or geographies. Many also face maximum asset allocations in alternative investments.

II. The Need for Identifying Opportunities for Action in Institutional Investment

In Addendum Number 01 to Catalyzing Private Investment BAA, USAID seeks knowledge and solutions to the current problem of limited levels of institutional investor engagement and investment into developing countries. This Addendum is seeking to: [2]

a. Discover new and effective ways that USAID and other public development entities can address the lack of institutional investors placing capital in emerging economies.

b. Identify new approaches, entry points, and specific steps or guidelines that development agencies may take for designing strategies and programs that increase institutional investment within emerging economies.

c. Develop pilot activities to test innovations in stimulating institutional investment flows into emerging economies

d. Identify partnerships that involve pre-competitive collaboration [3] among multiple private sector institutions to promote institutional investment into targeted countries

e. Other concepts related to increasing the flows of institutional investment.

Potential opportunities should address the multitude of factors that currently inhibit the flows of institutional investment into emerging markets, among them:

- A lack of knowledge about these markets, their inherent risks, and a lack of capacity to evaluate them. Political, legal, regulatory, and economic ecosystems vary widely in different developing markets. This variety can make it difficult for institutional investors to assess potential investments in countries in which they are not familiar.
- Local and global regulations restricting investment in alternative assets. The managers of institutional capital in emerging markets are often prohibited from making investments outside of listed equities and debt. Moreover, developed country institutional investors worry that a lack of transparency in the legal and regulatory environment will leave them without repayment and/or adequate compensation for risk.
- The lack of "bankable" investment pipeline. The lack of a steady pipeline of deals makes it difficult for institutional investors to have certainty that if they increase their portfolio allocation, they will have a variety of investments to evaluate and among which to invest.
- The unwillingness of many institutional investors to invest in an asset class without a performance history.

[2] These examples are illustrative and not exhaustive.

[3] Pre-competitive collaboration is defined as open collaboration among competitors to benefit their collective interest.

- The currency risks and lack of hedge products for frontier market currencies.

Within this context, USAID seeks to include a mix of partners with some or all of the following experience and expertise:

- Practical experience in working with institutional investment;
- Research and/or practical experience articulating the 'business case' for institutional investment into the emerging markets in which USAID operates;
- Proven track-record of attracting institutional capital to emerging markets;
- Business practices that promote institutional investment;
- Strong experience and innovative ideas to research, develop, and co-design of effective approaches to encouraging institutional investment and improved business practices; or
- New investment models to increase bankable transactions, aggregate multiple transactions, or manage risk, in order to attract institutional capital.

USAID is not seeking:

- Basic research (research directed towards fuller knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind, including laboratory intensive research);
- Solutions or partnerships which are limited exclusively to specific geographies, sectors, or asset classes; and
- Development of a specific system or hardware solutions.

III. Submission Instructions

Expressions of Interest must indicate the research or development idea(s) which will deliver potential solutions to the Need(s) in Section II, by increasing knowledge and understanding of potential solutions, exploiting scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques, advancing the state of the art, or using science, social science and technical knowledge in the design, development, testing, or evaluation of a potential new product or service (or of an improvement in an existing product or service).

Submitted expressions of interest will:

- Be in English;
- Be submitted electronically to the following e-mail address: PCMBAAAddendum01@usaid.gov.
- Be up to two(2) pages in length or no more than 1,000 words, and no smaller than 12 font;
- Contain a header with the following information (not included in the page/word count):
  - Respondent Name/Group and Contact information;
  - Response Title;

- BAA Addendum Name/Number; and
- Contain one optional graphic that fits on an 8.5" x 11" or A4 piece of paper (included in the page limit).

- Be in .pdf or .docx format.

Questions:

Any questions pertaining to this Addendum must be received via email to PCMBAAAddendum01@usaid.gov no later than December 4, 2015 at 12:00 PM EDT. USAID will respond to all questions received as soon as possible through an attachment to the initial posting to which all potential Offerors can refer. USAID will not answer any questions about this post after the 10 day question period expires.

IV. Review of Submissions

1. **Criteria**

The following criteria, in order of importance, will be applied in selecting expressions of interest:

a. **Idea/Approach:** Soundness and creativity of the idea/approach and its relevance to the need(s) articulated above in Section II.

b. **Impact:** The likelihood of generating substantial understanding of opportunities to increase institutional investment into the countries in which USAID works or generating actual increased levels of private sector investment.

c. The **qualifications and experience** of the applying organization in this field and of the individuals nominated to participate, and the organization's experience in working as a partner in similar ventures or consortia. Operational experience in working with a variety of institutional investors across different geographies and asset classes is pivotal.

d. **Ability to Participate:** One or two key, experienced individuals from the submitting organization must be available to participate in meetings in February/March, 2016 in Washington D.C., to develop the ideas presented while working alongside USAID staff and other organizations selected to participate.

2. **Process**

a. USAID will review and select expressions of interest submitted in accordance with the guidelines and criteria set forth in this Addendum. USAID and partners reserve the right to disregard any expressions of interest. Further, USAID is not obligated to issue a detailed justification for non-selection to move on to Stage 2.

b. Following the selection of initial expressions of interest, USAID will move on to Stage 2 of the Award stages as outlined in Section VI of the BAA. The first set of meetings will tentatively be scheduled for late-January/early-February, although it is subject to change.

   USAID will make every effort to provide as much advance notice as possible regarding meeting dates. **Travel costs will not be reimbursed by USAID.**

c. Concept papers will be reviewed for selection by the Peer and Scientific Review Board (see Stage 3 of the Award Stages under Section VI of the BAA).

d. Those concept papers that are successful following the review process will then be recommended to move onto Stage 4 of the Award Stages as outlined under Section VI of the BAA.

USAID is not obligated to issue a financial instrument or award as a result of this Addendum.

For more detail on the complete BAA process, please review the blanket announcement under which this addendum has been released, BAA-OAA-PCM-2015.

Information Protection

Please refer to Section VIII of the Broad Agency Announcement for Catalyzing Private Investment for instructions on how USAID will work with organizations to protect intellectual property. Expressions of interest should be free of any intellectual property that submitter wishes to protect, as the expressions of interest may be shared with USAID partners as part of the selection process.