



TERMS OF REFERENCE

Kenya Green Bond Program – Aggregated Financing Mechanism

Structuring Consultant Assignment

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Introduction

The global green bonds market has grown rapidly in the past three years, with USD 80 billion of issuance expected in 2016. Beginning in Europe and the USA, the past years have also seen issuance grow in China, India and Latin America¹. In Africa, activity has been seen in South Africa, Nigeria, Morocco and Egypt and the African Development Bank has issued approximately 20 green bonds amounting to over USD 1 billion over the past 6 years.

Green bonds have been used by multilateral development banks, development finance institutions, banks and corporates to finance and re-finance “green” investments – generally assets and projects relevant to addressing climate change mitigation or adaptation.

According to studies, Kenya could lose as much as 3 percent of its GDP due to climate variability, due to the fact that approximately 40 percent of the country’s economic activity and 70 percent of employment is tied to natural resources. Kenya’s Vision 2030 and Constitution (2010) recognises the country’s vulnerabilities and underscores the need for equitable and sustainable economic growth. Vision 2030 also introduces the establishment of the Nairobi International Financial Centre which will seek to attract foreign investment for development. Additionally, the National Treasury in conjunction with the Green Economy Strategy and Implementation Plan (GESIP) has outlined policies towards directing public sector investment towards the green economy. The National plan also includes raising a Sovereign Green Bond. Meanwhile, the IFC has identified Kenya as one of the 24 countries that will benefit from its maiden Green Bond Cornerstone Fund, and various development finance institutions including African Development Bank, FMO and DFID are keen to support the development of Kenya’s green bonds market.

An opportunity therefore exists for Kenyan institutions to tap growing international investor interest in green bonds while ensuring Kenya’s sustainable development. In particular, a carefully coordinated green bond programme offers the opportunity to develop a market for asset-backed securities and project bonds. Given its strong Islamic banking sector, Kenya also has the potential to develop a green Islamic finance stream – using green sukuk.

Developing a Kenyan green bonds market will allow domestic banks and corporates to better deliver green investments in Kenya – renewable energy, low-carbon transport, water infrastructure, sustainable agriculture and manufacturing, green building and more. Towards catalysing such investment towards the green economy, the Kenya Bankers Association and Nairobi Securities Exchange have established a collaboration under the Kenya Green Bonds Program. The partnership is endorsed by the Central Bank of Kenya and Capital Markets Authority with the CBK Governor serving as the patron of the initiative. The program is funded by Financial Sector Deepening Africa (FSD Africa) in partnership with DFID and FMO.

Program Summary and Deliverables

The Kenya Green Bond Program (GBP) will accelerate the take-up of green bonds as a tool for Kenya to tap into international and domestic capital markets to finance green projects and assets. Through its outputs, the project aims to facilitate capital flows into green investments to support sustainable growth in Kenya. The project will support potential Kenyan green bond issuers to come to market, engage the institutional investment community, and develop cooperative mechanisms to support access to the green bond market for smaller banks and corporates that don't currently have access.

¹ *Bonds & Climate Change: State of the Market, Climate Bonds Initiative July 2016*

It will further support a national agenda that seeks to reinforce Kenya's role as a regional leader in the area of financial services as articulated by Vision 2030 and Kenya Green Economy Strategy and Implementation Plan. There is also scope to transfer knowledge, practice and frameworks to other countries in the East Africa region.

The programme will therefore serve to promote the establishment and development of Kenya's green bond markets and will seek to meet the following objectives:

- Researching the potential of green bond issuance in Kenya;
- Developing a pipeline of green investments and engaging with investors;
- Supporting demonstration green bond issuance from leading banks and corporates;
- Promoting green Islamic finance;
- Developing a pool of Kenya-based licensed verifiers;
- Development of a pooled bond facility that would allow smaller banks and corporates to also take advantage of wholesale debt capital markets; and
- Develop Kenya's Green Bond Market & build local capacity to catalyse similar programs across East Africa.

Consultant Assignment

The structuring Consultant will assist the banking industry with conceptualising a fixed income instrument which would be classified as a green bond through a KBA-sponsored special purpose vehicle or structured fund.

Below is an itemised list of deliverables for the Aggregated Fixed Income (Bond) Financing Mechanism for which the Structuring Consultant will support KBA.

Date of Project Completion: November 2018

Add 1– Proposed Pooled Green Bond Structure

1. Deliverable 1: Concept SWOT Analysis

- a. The Consultant will consider the various fixed income financing mechanisms that will enable several bank and non-bank entities to efficiently come together (aggregate) to tap climate-aligned capital and participate in the green economy.
- b. In the concept rationale, the consultant will cover the distinct benefits / value proposition of each proposed mechanism, detailing the legal structure of the issuing entity; and the structure's cost efficiency and risk mitigation approach. Issues associated with the underlying assets (if any) as well as asset allocation strategy to maximise fund valuation, and the role of each of the participating parties in the structure, should be well articulated. Specification of requirements for credit enhancement is also key considering the pooled fund entity would have no track record.
- c. In the review of the various concepts, a risk assessment of the proposed structures should be undertaken. For each concept, the Consultant will provide a comprehensive review of issuance risks, covering market risk, interest rate risk, currency risk, credit risk, participant default risk, etc. On the investor side, the risk assessment will articulate areas the investors would be exposed and mitigation measures the structure should have in place.

2. Deliverable 2: Strategic Approach Recommendation and Business Case

- a. The Consultant will make a recommendation on the ideal concept based on the assessment. The recommendation will be presented in the form of a Strategy Paper which will outline the value proposition associated with the proposed financing mechanism.
- b. Based on the recommended approach, the Consultant will cover how the mechanism will provide access to the capital markets and the type of investor base it would attract at greater flexibility and lower interest rates than the participating institutions could garner independently.
- c. Depending on the proposed mechanism, a governance structure of the issuing vehicle would need to be proposed, outlining the constitution of the management, board of approval, and trustees and/or custodians.

Add 2 – Review of Legal & Regulatory Framework and Standards

1. Deliverable 1: Standards, Regulatory & Legal Framework Analysis Report

- a. The Consultant will review Kenya laws, regulations, standards and codes covering capital markets and banking to determine the framework under which the proposed pooled structure would best fall under.
- b. The Consultant would also review the green bond and climate bond certification standards to ensure that the proposed structure will be in compliance with these internationally accepted standards.

2. Deliverable 2: Policy Recommendations White Paper

- a. Incentives within the fiscal and policy framework should be proposed for Kenya Regulators and Government to consider in order to promote an enabling environment for the maiden issuance and subsequent issuances.
- b. The policy recommendations should be authored as a White Paper, covering the regulatory and legal framework analysis in Kenya and recommendations based on other key markets.
- c. Specific policy makers that should be covered in the recommendations include National Treasury, Kenya Revenue Authority, Central Bank, Capital Markets Authority, Retirement Benefits Authority, Insurance Regulatory Authority and National Environmental Management Authority.

Add 3 – Strategic Partners

1. Deliverable 1: List of Strategic Partners

- a. The Consultant will list / itemise local, regional and international actors, including multilateral banks, development finances institutions, Government, central bank, etc. that would come in to support the proposed structure.
- b. For each actor, the Consultant will explain the role they would play.

Add 4 – Portfolio and Pipeline Consultations

1. Deliverable 1: Bank Consultation Meetings

- a. The Consultant will hold a series of one on one meetings with pre-selected banks to review their portfolios and pipeline and identify the assets that would qualify under the fund for financing or refinancing.

2. Deliverable 2: Portfolio and Pipeline Report

- a. From the meetings, the Consultant will help KBA determine the size of the issuance and assets that would form the initial pipeline,
- b. The portfolio review process should also help guide on the amount to be raised in the initial issuance, the proposed tenor of the instrument, and the appetite for both local and foreign currency, and an indicative pricing guide.
- c. The goal would be to identify a pipeline of both local and foreign currency assets that would take up at least 50 per cent of the capital to be raised, thus mitigating the cost of carry of the issuance.

Add 5– Draft Guidelines

1. Deliverable 1: Pooled Bond Guideline Document

- a. As part of the assignment, the Consultant will develop a draft “Pooled Bond Guidelines” document that articulates the value proposition of the proposed financing mechanism. The document would provide guidance to the participating institutions on how they would structure their financing arrangements so as to benefit from the facility.

The guidelines would also outline the:

- proposed use of proceeds, defining the types of projects that would qualify to receive financing;
- application procedure of how the participating institutions will tap the fund; and
- process by which the issuing structure will allocate capital to the participating institutions.

The participating institutions should be guided on:

- how to qualify to participate in the fund, including debt service minimum requirements and repayment obligations; and
- disclosure and reporting requirements of the Fund.

Add 6 – Roadmap and Timeline

1. Deliverable 1: Roadmap and Timeline

- a. Based on the recommended approach, a roadmap of actions, action owners, costs and timelines should be provided.
- b. The KBA goal is to issue the vehicle before the end of 2017 or, at a maximum, within six months from the adoption of the Consultant’s proposal.

Add 7 – Budget and Costs

1. Deliverable 1: Estimated Costs of Proposed Structure

- a. The Consultant will provide indicative costs for the implementation of their proposed concept, covering the establishment of the issuing vehicle, costs for the participating institutions, and issuance costs including legal and audit, financial advisory services, rating and certification, etc.
- b. Cost considerations would also include marketing of the facility to an international investor base, primarily London, Zurich, Frankfurt and New York.

Project Management

The Kenya Green Bond Program will be structured with oversight by a Project Steering Committee (PSC) and a GBP Project Manager. FSD Africa will chair the PSC.

The PSC functions will be to:

- Monitor and evaluate the GBP by reviewing monthly, quarterly and annual reports by the Project Manager.
- Provide strategic direction to the programme so as to ensure that programme objectives are met.
- Provide technical support to the project manager, as and when required in order to ensure successful completion of the programme.
- Authorise any changes to the programme workstreams.

The Project Manager will report on a monthly, quarterly and annual basis to the PSC the delivery of the workstreams and budget performance of the overall program, including the Structuring Consultant deliverables.

KBA will serve as the Secretariat (host) of the programme and provide the project manager with a desk and administrative support service. The Structuring Consultant will be required to use their own premises, however, will be required to attend meetings and project sessions at the GBP Secretariat.

Other Deliverables (Input to Lead Consultant)

In addition to the Consultant's deliverables listed above in ADD 1 to ADD 7, there will be additional input that the Consultant will provide to the larger program. **See Appendix – Other Deliverables** for an itemised description of these other areas. These deliverables will be undertaken by a Lead Consultant. It is the role of the Structuring Consultant, under these Terms of Reference, to provide input and feedback to the outputs generated by the Lead Consultant.

Project Time Allocation

The Structuring Consultant will be employed for the maximum duration of 200 days. The work is expected to start on 5th June 2017.

The contract is renewable annually based on an annual assessment of the Consultant's performance and deliverables by the GBP PSC and Project Manager.

Schedule

- Call for Proposals: 25th April 2017
- Response deadline: 16th May 2017
- Assessment: 22nd May 2017
- Telephone Interviews with Shortlisted Candidates: 24th May
- Notification: 26th May
- Contracting: 29rd to 2nd June
- Commencement of Assignment: 5th June 2017

Consultant Requirements

To qualify for this assignment, it is expected that the Consultant must possess at least 6 years relevant, senior management level experience and be able to demonstrate:

- A commercial orientation, a background in banking and capital markets, with extensive financial consulting and fixed income project management expertise in the financial sector, mainly working with leading commercial and/or investment banking entities
- Proven track-record of implementing projects with multiple local, regional and international stakeholders within the financial services sector is preferred
- Solid understanding of Sustainable Finance Principles and Green Finance approaches must be demonstrated
- Proven track record with international recognized ESG management approaches and reporting is required
- Knowledge of the Kenyan, and certainly the African, Green Economy context with a network of practitioners in the field cutting across public and private sector
- Excellent English communication and writing skills
- Proactive, leadership, outgoing, dynamic, works well as part of a team

It is preferred that the Consultant be a consulting firm with a multidisciplinary team to cover the various components of the project; however, submissions are also welcome from individual consultants or a consortium of consultants.

Procedure

Interested candidates are requested to send the following:

- Response letter demonstrating an understanding of the context, background and objectives of the project
- Overview of the consultant company detailing key clients and projects with similar scope
- Proposal including detailed work plan, timeline in Gantt chart form, milestones and deliverables
- Financial proposal indicating compensation terms including costs per activity, daily rate, number of days, and any travel and accommodation costs
- A case study of a related assignment, outlining project deliverables, stakeholders, budget and outcomes. The case study should be no more than 2 pages
- Bio profile and Resume of the prospective consultants assigned to the project outlining respective capabilities and relevance to the project

Submissions should be sent via email to sfi@kba.co.ke before Noon on 16th May 2017.

Confidentiality Statement

All data and information used and received regarding this assignment is to be treated confidentially and only to be used in connection with the execution of this Terms of Reference.

All intellectual property rights arising from the execution of this Terms of Reference are assigned to the Kenya Green Bond Program Secretariat (Kenya Bankers Association / KBA). The contents of written materials obtained and used in this assignment may not be disclosed to any third parties without the expressed advance written authorisation of KBA.

Reference of this assignment on any Web site or in printed form, including in marketing material or presentations, should be with express written authorisation of KBA.

Contact Information

Should you require any further information to be able to process this call for proposals, please do not hesitate to email sfi@kba.co.ke.

Attachments

- Kenya Green Bond Program Brochure

OTHER DELIVERABLES OF THE ASSIGNMENT

In addition to the Consultant's deliverables listed above in Add 1 to Add 7, there will be additional input that the Consultant will provide to the larger program. Below is an itemised description of these other areas.

These deliverables will be undertaken by a Lead Consultant. It is the role of the Structuring Consultant, under these Terms of Reference, to provide input and feedback to the outputs generated by the Lead Consultant.

Green Bond Strategy and Standards for Kenya

Component 1: Strategy Paper on Green Bonds in Kenya

A Lead Consultant with international experience will carry out research and prepare a comprehensive green bond strategy for Kenya.

For this deliverable, the Structuring Consultant will review the strategy paper based on investor requirements and market perspective, submitting feedback to the Lead Consultant.

Date of Completion: 30th June 2017

Component 2: Establishing Green Bonds Standards

The Lead Consultant will establish Kenya Green Bond Standards that are in line with the internationally-accepted Green Bond Principles and Climate Bond Standards. These standards would be based on the international principles and adjusted to the Kenyan environment.

For this deliverable, the Structuring Consultant will review the standards based on investor requirements and market perspective, submitting feedback to the Lead Consultant.

Date of Completion: 28th July 2017

Component 3: Establishment of Green Bonds Advisory Committee

The GBP Advisory Committee will be a formal group consisting of key market actors (industry, regulators and stakeholders) will be formed, and will work to address the bottlenecks to green bond issuance in Kenya. Over the long term, the output of the Advisory Committee would include the publication of a periodic review of the Green Bond Programme, which will provide an opportunity for review of the programme's impact, milestones, opportunities and challenges.

The Structuring Consultant will present proposals to the Advisory Committee, factoring the committees feedback.

Date of Completion: Quarterly

Supporting Potential Issuers of Green Bonds

Component 1: Developing a pipeline of green investments and engaging investors

During the course of the GBP, various meetings, workshops, roundtables and conferences will be held, targeting potential issuers including individual banks, corporates, and sub-national entities. In addition, investor forums with local, regional and international institutional investors will be organised as appropriate.

The engagements will sensitise investors on the fundamentals of green bonds, the development of the green bond market globally and the potential for Kenya, as well as provide platforms for stakeholder groups to come together on their investment plans, funding needs and available de-risking tools among other areas.

The Structuring Consultant will support the events by providing guidance on potential attendees and content for the forums; as well as making presentations at these forums.

Date of Completion: Ongoing

Component 2: Supporting demonstration transactions

A guide that aims to provide support for potential issuers, including green sukuk issuers, with clear assurance frameworks will be developed by the GBP Lead Consultant.

For this deliverable, the Structuring Consultant will review the guidelines based on investor requirements and market perspective, submitting feedback to the Lead Consultant.

Date of Completion: Ongoing with target to issue Kenya's first green bond in 2017

Market Capacity Building and Awareness

Component 1: Development of e-learning module on Green Bonds

This training and capacity building output will be developed by the GBP Lead Consultant and would include the development of content that would be deployed via the KBA e-learning platform (<https://sfi.kba.co.ke/e-learning-platform>), targeting key departments, namely Treasury, Commercial Banking, SME Finance and Public Sector Finance.

For this deliverable, the Structuring Consultant will submit a case study to be incorporated by the Lead Consultant into the course.

Date of Completion: 30th June 2017 for GBP e-learning module delivery

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