

Invitation for Proposal
for role as
Manager of
the Dutch Investment Fund for
Youth Employment
("DIFYE" or the "Fund")

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1. Background

There is an urgent need to generate good quality jobs for youth in the Middle East and Africa. The Middle East and North Africa (MENA) region's population is young, growing, increasingly well-educated but underemployed. Youth under the age of 25 constitute half of the population in the region and youth unemployment stands at over 30%.¹ In Sub-Saharan Africa, youth under 25 constitute 60% of the population and across Africa, 15 to 20 million increasingly young people are expected to join the workforce every year for the next three decades.²

Young women face additional barriers to finding and retaining decent employment. Globally, women earn on average 24% less than men, but in Sub-Saharan Africa, this figure surges to 30% less. In North Africa and the Arab States, youth unemployment among women reaches 44% - almost twice that of men%.³

Challenge Fund for Youth Employment (CFYE)

In 2019, the Department of Sustainable Economic Development (DDE) of the Ministry of Foreign Affairs (BZ) of the Netherlands set up a challenge fund to address the challenge of creating employment opportunities for youth in the Middle East, North Africa, Sahel, West Africa and the Horn of Africa. The goal is to ultimately enable 200,000 youth, at least half of whom are women, in the focus regions to benefit from **decent employment**. Specific countries that fall under CFYE are Uganda, Kenya, Sudan, South Sudan, Ethiopia, Egypt, Jordan, Iraq, Tunisia, Morocco, Algeria, Nigeria, Senegal, Mali, Niger and Burkina Faso. The CFYE program runs till December 2025.

The CFYE distinguishes three employment outcomes pathways: "create," "match," and "improve". The three outcomes are defined as follows:

1. Create: A young person takes up a job/role that has been newly created as a result of the intervention
2. Match: A young person is matched with or finds a job that may or may not have existed prior to the intervention; or
3. Improve: a young person experiences improvements in working conditions within an existing job as a result of an intervention.

The private sector is an important partner for CFYE as employers of youth. As the companies are working in competitive environments, it is important for the Fund to make sure that it only funds activities that are truly additional, or that would otherwise not have happened to the same scale, degree, quality, speed, or at all. Offering a wide set of financial instruments is important to ensure additionality when working with the private sector. Whilst capital may be required for investments, non-returnable project contributions of a challenge fund may not be the right instrument, for example

¹ World Economic Forum (2017). *The Future of Jobs and Skills in the Middle East and North Africa: Preparing the Region for the Fourth Industrial Revolution*. Geneva, Switzerland.

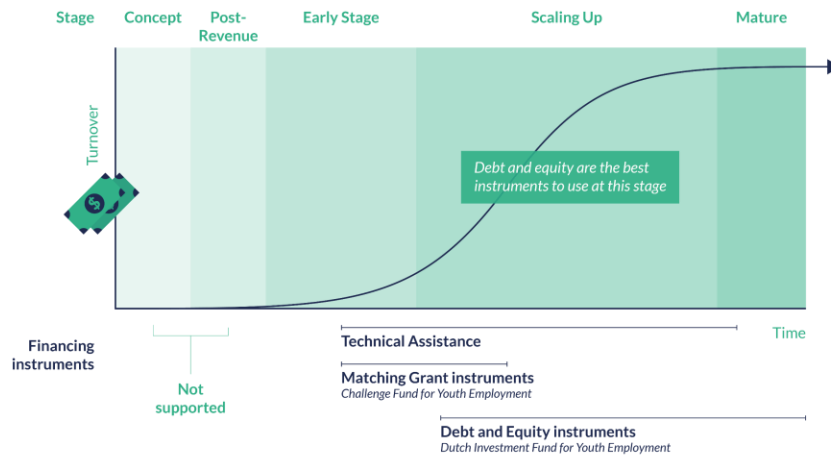
² World Economic Forum (2017). *The Future of Jobs and Skills in Africa: Preparing the Region for the Fourth Industrial Revolution*. Geneva, Switzerland

³ Plan International (2019). Youth Unemployment: The Facts. [Online]. Available at: <https://plan-international.org/eu/youth-unemployment-facts>

when investment is not sufficient, or the activities could have been financed by the companies or their financiers. At the same time, companies often face cash flow challenges when scaling up and/or struggle to find financiers with a longer time horizon that might be needed to see the financial returns of more socially responsible investments.

CFYE therefore wants to support the establishment of the Dutch Investment Fund for Youth Employment (DIFYE) to offer the right mix of instruments contributing to its target to enable 200,000 youth in the focus countries to benefit from decent jobs. The DIFYE will help to offer the right mix of instruments contributing to the additionality of the finance provided, to leverage capital from other sources and establish a Fund which will contribute to youth employment beyond the duration of CFYE itself. The mix of instruments should be mutually re-enforcing and enable small and medium enterprises to grow as depicted in the figure below:

Financing instruments during company's life-cycle



2. Dutch Investment Fund for Youth Employment

CFYE is looking to support and seed the establishment of an investment fund that will focus on the “Create” and to some extent can consider “Improve” employment outcomes. The fund is expected to provide growth capital to Small and Medium sized Enterprises (‘SMEs’) that are well-positioned and have the intention to grow their workforce by investing and employing youth. These enterprises need capital to expand their businesses, yet are poorly served by existing finance providers. Established fund managers, with a track record of financing SMEs in some or all of the regions mentioned above and proven track record in developing and implementing robust frameworks for measuring social impact, are invited to submit a proposal to become the manager of the Fund.

Objective DIFYE

The objective of the Fund is to identify and support those enterprises that, through their growth, can grow the number of quality jobs for young people (defined as being between 15 and 35 in age), especially young women (with the explicit target that 50% of jobs created need to be for women). The fund is expected to create at least 25,000 jobs by December 2025.

The structure and strategy of the Fund need to be geared towards this aim. How this is achieved, what companies in which of the focus countries to target, what type of financing to offer, etc. is left to the fund manager to suggest through its proposal. A clear theory of change, setting out how the objective of generating job opportunity for youth will be achieved, is a core part of the proposal.

3. Fund Manager Role

It is anticipated that the Fund Manager will manage the entire investment process. This will include:

- Pipeline creation
- Preparation of Investment Committee materials and presentation of the opportunity
- Due diligence, negotiation, structuring and documentation of the investments
- Management of liquidity and FX exposure, as well as other back-office functions
- Portfolio monitoring and reporting
- Sourcing of exit opportunities (where needed)
- Raising capital (with support from a placement agent)

Certain responsibilities are expected to be taken on by third parties, e.g. auditor, custodian, transfer agent and registrar.

Relationship with Challenge Fund for Youth Employment

Whilst independent from the Challenge Fund for Youth Employment, the Fund is expected to work closely together with the Challenge Fund. The Challenge Fund will support the Fund through:

- Access to proprietary pipeline of enterprises, including those identified through or graduating from CFYE grant challenges;
- Ability to offer further technical assistance support to enterprises (in some instances); and
- First Loss Capital provided via a grant amounting to maximally EUR 10M.

It is proposed that the governance of the Fund and its processes are designed to ensure ongoing co-operation and co-ordination between the Fund and the CFYE, and it is expected that proposals will include recommendations to this effect. In addition, proposals should contain preliminary views on a framework for reporting on impact, to be more fully developed by the fund manager, in conjunction with the CFYE at a later stage. The Fund will be expected to report, on an ongoing basis, against such framework.

Funding

The Fund will receive a grant of up to EUR10mn from CFYE. It is anticipated that no more than EUR 500,000 will be used towards the establishment of DFYE, with the remainder going into the fund as first loss / subordinated capital. It is intended for a further EUR50mn to be raised from third party funders. Responsibility for this capital raise will be primarily with the Fund Manager, with support from Palladium.

Your proposal should also indicate proposed contributions of the Fund Manager to establishment costs, management fee and or fund contribution.

Fund Governance

Your proposal should include thoughts on fund governance. Investors are expected to be represented through an advisory body. The proposal should set out anticipated reporting.

Fund Manager requirements

The Fund Manager will be expected to:

- Have extensive track record in the financing mechanism put forth in the proposal;
- Have extensive experience making investments in scaling enterprises;
- Have a strong track record in the geographies and sectors put forth in the proposal and aligned with the CFYE;
- Have a strong track record as Fund Manager, as well as have all associated (administrative and regulatory) infrastructure in place;
- Have a strong proven track record in impact management and measurement;
- Have a solid reputation as a leading impact fund manager; and
- Be motivated to build an impactful proposition that is a lasting solution with on the ground presence.

4. Process

Timeline

16 July: Launch of the Calls for Concepts

22 July: Information session for prospective applicants (webinar)

20 August: Deadline to send clarifying questions (online) or request for one on one sessions*.

27 August: responses to clarifying questions will be available on the Challenge Fund website

15 September: submission of Concept Notes

* Requests for one on one sessions can be made alongside proof that eligibility requirements as set out in Appendix II are met by the prospective applicant.

Request for Proposal

Interest parties are invited to respond to this Request for Proposal. You are requested to submit a proposal of not more than 30 pages providing answers to the questions in Appendix I, designed to provide information about your institution and your commitment and ability to manage the Fund. We also invite your preliminary views on key structuring questions, coordination and alignment with CFYE building on your experience with other funds that you co-created, as well as a specific fee proposal.

You are kindly requested to submit your proposal by e-mail, no later than 15 September 2020, to dutchinvestment@fundforyouthemployment.nl.

Presentations

A shortlist of prospective fund managers will be invited for a presentation in September, conducted virtually and designed to expand on the written submission. This will help us achieve a better understanding of the alignment in terms of philosophy, approach to promoting youth employment and measuring impact.

Selection

After the workshops, Palladium anticipates selecting a preferred bidder. The evaluation criteria are specified in Appendix II. Palladium will enter into final negotiations on an exclusive basis with the selected Fund Manager.

Start of Contract and Fund

We expect the contract to be in place by December 2020 and first investment deals should be closed by March 2021. Capital raise can be done later and can be phased. We expect the fund to continue after the close of the CFYE program in December 2025.

Appendix I Proposal Content

Applicants are free to choose a format for their proposal. Applicants need to ensure that their proposal does not exceed the maximum number of pages (30) and that it clearly illustrates that the eligibility criteria set out in Appendix II are met.

Proposals need to cover the following points:

- 1) Fund concept – please provide your thoughts on:
 - a) Strategy for approach to addressing youth employment, including in terms of target geographies, sectors, financing instruments, investment amounts and mechanism for deploying capital
 - b) Overview of opportunity landscape and approach to building the pipeline
 - c) Competitive overview of other funding providers targeting the same or similar markets and differentiation and additionality of your proposal
 - d) Approach to impact management and measurement
 - e) Proposal for ensuring close co-operation between the Fund and the Challenge Fund for Youth Employment
 - f) Vehicle structure
 - g) Governance and legal structure
 - h) Investment strategy and investment restrictions
- 2) Overview of your institution, including:
 - a) Mission
 - b) Board and senior management structure and background
 - c) Overview of key activities, expertise and team
 - d) Geographic representation
 - e) Evolution of assets under management
 - f) Description of funds /vehicles you manage
 - g) Overview of historical track record (financial and impact)
 - h) Why are you the right institution to lead the Investment Catalyst
- 3) Transaction and technical expertise with similar initiatives, including:
 - a) Relevant financing expertise (structuring and execution)
 - b) Investment expertise (structuring, investments, portfolio management, risk management)
 - c) Impact management and measurement expertise (setting up measurement frameworks, data quality assurance)
 - d) Senior management experience in the scaling of enterprises
 - e) Experience with a range of investors
 - f) Experience in capacity building activities, including partnerships with BDS providers
 - g) Overview of your track record, if any, in managing externally designed fund product
- 4) Local market knowledge and network, including:
 - a) Network in the local corporate and investment markets (with a focus on small and scaling enterprises)
 - b) Experience in the work with and the issues of unemployment and gender in local communities
 - c) Understanding of local regulatory regimes
- 5) Proposal
 - a) Staffing / team, incl. additions needed

- b) Fee structure
 - c) Fund budget / cost estimate
 - d) Proposal for incentive remuneration, ideally with a portion of incentive remuneration linked to the achievement of impact
- 6) Any other information you deem important for us to be aware of

Appendix II Eligibility and Evaluation Criteria

Proposals received will go through a two-step evaluation process. In the first step, the eligibility of applicants will be assessed. Only applicants who meet all eligibility criteria will go to the second stage of the evaluation.

Applicant's Experience:

1. Managing investment funds with significant portfolio in two or more of CFYE's focus countries in Sub-Saharan Africa and Middle-East with at least \$50 million assets under management.
2. Experience in executing direct investments. Fund of funds as well as indirect investments are not considered eligible.
3. Experience in designing and implementing monitoring and evaluation methodologies including environmental and social governance.
4. Experience successfully raising third party capital from professional investment firms.

Applicant's Capabilities:

5. Fund manager or investment manager with a minimum of 15 years of experience
6. Impact specialist with a minimum of 5 years of experience

In the second stage of the evaluation process, we will score all proposals on the following criteria:

1. *Organisational capabilities– 25%*
 - Expertise and team experience
 - Geographic representation
 - Fund raising track record
 - Speed to market
 - Returns track record
2. *Fund economics – 25%*
 - Risk-return metrics
 - Management fees
 - Fund costs
3. *Fund proposal – 25%*
 - Overall saleability to investors
 - Link to youth employment and M&E plan
 - Link to the Challenge Fund for Youth Employment (CFYE)
 - Suitability of funding product to target market
 - Proposed structure
 - Pipeline plan
4. *Impact – 25%*
 - Impact track record
 - Quality of impact reporting
 - Theory of change
 - Plan for addressing gender and diversity

Appendix III Definitions, Theory of Change, Targets and Indicators

1. Definitions

The Challenge Fund for Youth Employment (CFYE) aims to enable 200,000 young people (age 15-35) to benefit from **decent employment**.

Decent indicates that the CFYE prioritizes not only the number, but the quality of employment young people gain. Having a job is not enough, as many young people already earn income from vulnerable or informal types of work. The quality of jobs matters just as much, and dedicated efforts are needed to ensure that jobs young people are entering into are safe, fair, and generate a living wage or income.

According to the ILO, decent work is work that “is productive and delivers a fair income, security in the workplace and social protection for families, prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.” All jobs generated through the DIFYE (the Fund), should be **decent** jobs, including but not limited to meeting the following parameters:

- a living income or wage if it is a full-time job, or in combination with existing income-generating activities if it is less than full time;
- a safe working environment;
- a written contract;
- not to exceed 48 per week (as per ILO conventions) with occasional overtime;
- providing opportunities for development and career progression
- assurance that the workers are of the minimum legal working age;

Employment is defined as any activity that generates monetary income, **formal or informal, direct or indirect**, including **wage-jobs** and **self-employment**, as long as it meets the above parameters. **Direct** jobs refer to jobs generated through the intervention itself, while **indirect** jobs include employment changes of the suppliers or distributors of the main intervention or company receiving investment.

2. CFYE Theory of Change

The CFYE aims to achieve its goal by co-investing in a set of private sector-driven projects that address **supply, demand, and matching** constraints in the labour markets (See Figure 1: CFYE Theory of Change). We expect that the DIFYE will focus primarily on investing in demand-side youth-employment interventions.

- **Supply** refers to the supply of labour, i.e. young people themselves. This means preparing young jobseekers to improve their employability, pursue and find quality jobs, to move from low- to higher-quality jobs, or to start their own productive enterprises. This includes accessing information and developing demand-driven skills. Special attention must be paid to the unique constraints that women face, both as employees and as entrepreneurs.

Supply-side projects may include hard and soft skills training or youth entrepreneurship support.

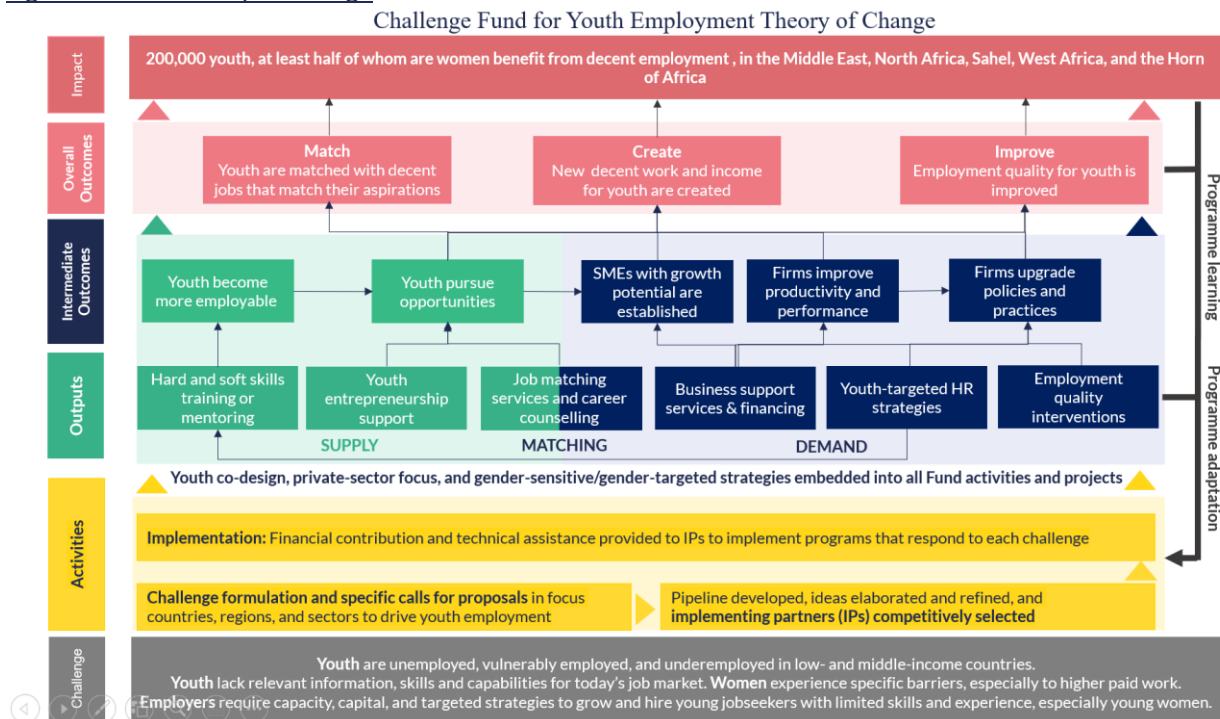
- **Demand** interventions promote the creation and improvement of decent, sustainable jobs, by stimulating resilience, productivity and growth of enterprises (to induce job creation) or improving employment quality within existing firms through upgrading policies and practices. The private sector provides the most jobs in the focus regions, albeit often in the informal sector.

Demand-side projects include business support services (including value chain development) and financing to small-to-medium scale enterprises (SMEs) or lead firms to grow in order to add new jobs, helping firms adopt youth-targeted Human Resources (HR) strategies for recruiting and developing young people, and working conditions interventions to improve or generate better employment conditions for young people.

- **Matching** youth skills with employers’ requirements is crucial to determine job prospects for young people. Often supply and demand interventions are not adequately linked. Skills development for youth should be aligned with the specific requirements of local employers and/or link to work placements.

Matching projects may include job search, career counseling or placement services that target youth and especially young women.

Figure 1: CFYE Theory of Change



By unlocking supply, demand, and matching constraints, we expect projects to contribute to one or more of three overall employment outcomes: **creating** new work and income generation opportunities for young people (including through self-employment and entrepreneurship), **matching** young people with existing vacancies, or **improving** the quality of existing employment. The 200,000-reach target for the CFYE includes these three outcomes, however we expect the DIFYE to focus primarily on the **create** and **improve** outcomes, as these tend to be more demand-side/private-sector driven. These are further explained below:

- **Create:** This outcome relates to the creation of more jobs that can be filled by youth (measured as net additional full-time equivalents). The jobs can either be created for employees or as new work and income opportunities for the self-employed. We expect this to be a result entrepreneurship support (self-employment or to establish SMEs), business development support towards SME capacity and productivity growth leading to more jobs (including linking youth businesses with specific value chains), with a focus on creating youth opportunities while removing gender barriers to employment.
- **Match:** This outcome refers to young people getting jobs through initiatives that address the actual or perceived mismatches in technical, cognitive, and soft skills to labour market opportunities. Matching supply (youth) with available decent jobs may be a result of improved employability leading to young people pursuing opportunities, primarily through supply and/or matching

interventions.

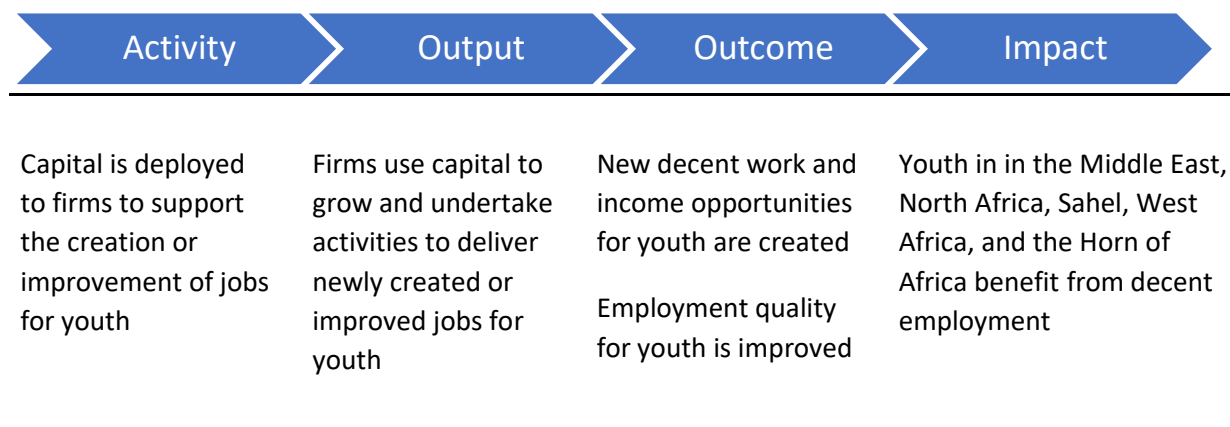
- **Improve:** In CFYE focus countries, hardly anyone can afford to be unemployed. This outcome refers to improving the quality of existing jobs, including in the informal sector. This may include raising standards in the supply chains of firms or promoting e-commerce and ‘gig economy’ technologies and business models that have the potential to connect informal workers to more predictable sources of income. The CFYE focuses on six aspects of employment quality (Income/benefits; safety/ethics; working time and work life balance; social protection and job security; social dialogue). We expect this outcome to result from employment quality interventions and youth-targeted human-resource (HR) strategies, or from increased productivity/growth of firms.

This outcome is emerging as even more critical in the COVID-19 context in countries with a large informal sector and gig workers, as the absence of social protection benefits including healthcare, sick leave, and unemployment protection puts these workers more at risk.

3. DIFYE Theory of Change, Targets and Indicators

The CFYE is targeting to reach 200,000 young people including 100,000 young women across the focus regions by 2025, of which we expect that 25,000 young people including at least 12,500 young women will be reached through the DIFYE. See Figure 2 for a sample Theory of Change for the DIFYE. These jobs may be generated either directly or indirectly through the investments. Indirect jobs may be counted towards the 25,000 if it can be clearly demonstrated that the investment led to the creation (or improvement) of the indirect jobs.

Figure 2: Sample Theory of Change for the DIFYE⁴



The cost of creating and improving jobs varies widely depending on the sector, geography, context, and type of intervention, and type of capital deployed. For example, this may include the capital and operational expenditures of setting up an enterprise or expanding an existing business. Therefore, we do not stipulate a target cost-per-job generated through the DIFYE. However, because we are interested in capturing this for learning purposes, this indicator is included for each type of outcome. For a list of suggested indicators for the DIFYE, please see Table 1.

⁴ Adapted from the Impact Value Chain in Measuring Impact: Subject paper of the Impact Measurement Working Group, September 2014. <http://www.evaluatingimpactinvesting.org/wp-content/uploads/Measuring-Impact-IMWG-paper.pdf> accessed on 14 July 2017.

Table 1: List of suggested indicators for the DIFYE

TOC Level	Outcome	Indicators
Impact	25,000 young people, at least half of whom are women, in in the Middle East, North Africa, Sahel, West Africa, and the Horn of Africa benefit from decent employment (wage-earning or self)	<ol style="list-style-type: none"> 1. Number of young people (aged 15-35) to benefit from decent employment, disaggregated by male and female 2. Additional earnings (income or wages) and financial benefits to the youth employed as a result of the DIFYE's investments
Outcomes (impact return)	<p>New decent work and income opportunities for youth are created</p> <p>Employment quality for youth is improved</p>	<ol style="list-style-type: none"> 3. Net additional decent jobs created (FTEs) 4. Cost per net additional job created 5. Number of young people to gain employment via newly created decent work and income opportunities 6. Number of young people (aged 15-35) for whom employment quality is improved 7. Cost per youth for whom employment quality is improved
Outputs* (Firm growth, services, and programs supported by DIFYE investments)	Firms use capital to grow and undertake activities to promote youth employment, e.g. providing business development services to SMEs, value chain interventions, training, youth-targeted HR strategies, or other	<ol style="list-style-type: none"> 8. Number of firms with increased turnover (revenues) and/or productivity* 9. Number of firms supported with business development services or value chain interventions* 10. Number of young people (male/female) to have received training* 11. Number of firms that develop or adopt HR

strategies designed to hire, develop and retain young people*

Activity	Investment capital is deployed to firms that will support the creation or improvement of jobs for youth	12. Number of firms that receive investments from the DIFYE 13. Amount of investment into each firm
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*Output indicators will be established based on the types and purposes of investments made