

Attachment 7: Answers to Questions

RFP- CATALYZE-217772-PSD-2022-0680 | Call for Business Advisory Services Providers (BASPs) Investment and Credit Facilitation

- 1. In identifying potential MSME's (Micro, Small and Medium Enterprises) what is the role of the PSD (Private Sector Development) Program? Does PSD Program already have a database which the BASPs (Business Advisory Service Providers) can leverage.**

PSD expects BASPs to identify the majority of their clients using their own networks and resources. The time associated with identifying eligible MSMEs should be factored into the expected number of MSMEs supported and amount of financing included offerors proposals.

However, PSD does have large database of MSMEs in all sectors and may, on occasion, refer MSMEs in selected sectors to reduce acquisition cost and expedite the evaluation of potential MSMEs to be supported by BASP and PSD. MSME referral is in no way a guarantee of financial transaction viability and BASPs are not required to work with MSMEs simply because they are referred to the BASP by PSD. BASPs are still expected to conduct the same level of due diligence for PSD partner MSMEs as they would for all potential clients.

- 2. Can the BASPs limit their scope of work based on Sector (E.g., only focus Information Communication Technology sector), Segment (e.g., only focus Medium Enterprises).**

BASPs are free to focus on any target sector or segment of PSD. However, and as mentioned in the RFP, *"once BASPs identify a potential transaction, BASPs must submit a matrix outlining the client (MSME) and transaction details to PSD for pre-approval, and a justification statement explaining the rationale for additional incentive support from PSD for the transaction to proceed."*

- 3. Can the BASPs limit their scope of work based on Debt or Equity Financing (e.g., only focus Private funding from Angel investors/networks, accelerators and/or incubator programs).**

Yes, BASPs are free to limit their scope based on their capacity and expertise, eligibility as outlined in the RFP.

- 4. How many companies should be listed on the CSE under this project?**

PSD encourages BASPs to apply for listings for as many MSMEs as they believe to be feasible considering BASP capacity, capabilities, and the timing of the proposed approached. Proposals will be judged, in part, based on the feasibility of the number of MSMEs and financing amount included in the proposal.

- 5. Past performance - it says, should list a up to five (5) of the most recent (within the last 5 years) financing deals supported that are most like those anticipated under this subcontract. If a company has not done a listing within 5 years, can that company apply for this project?**

Any BASP has to strictly meet the eligibility criteria to qualify applying for any of the activity as per the RFP. However, for services requested for *"III. Raise finance through the EMPOWER Board"*, BASPs can present deals supported in the past in which there is evidence of BASP's relevance experience in due diligence process, valuation of companies and support pre and post investment even if they are not listed.

BASPs that include financing through the EMPOWER board must be a registered Sponsor on the Empower Board of the Colombo Stock Exchange or able to become a sponsor within three months of subcontract award. The RFP has been modified to allow those not yet registered as Sponsors apply for EMPOWER board financing support. However, Palladium reserves the right to terminate and/or reduce the ceiling of subcontracts if BASPs are unable to become a Sponsor within 3 months of award. BASPs who do not include EMPOWER board financing in their proposal are not required to become an EMPOWER board Sponsor.

6. Will USAID/PSD introduce BASPs to potential investors/foreign funds and assist in raising equity funding?

BASPs are responsible for identifying investors (local/international). PSD will use its network of investors, if needed and possible, but BASP should not rely on these introductions for the proposed plan.

7. In an equity investment, would USAID match the funds BASPs raise from investors?

No, USAID will not match the funds.

8. Are BASPs allowed to separately charge fees from the investor for structuring and negotiating the transaction? Or are they limited to the fixed and success fees provided by PSD?

PSD has no objection, and in fact encourages, BASPs to charge MSME market rates for their support. However, BASPs charging fees to MSMEs must outline said fee in the MSME approval scoring matrix (see ANNEX A- Statement of Work, point 7 – Preapproval, point I).

PSD incentive payments are not meant to fully cover all costs involved in these types of transactions. Rather, the incentive payments are meant to either partially reduce the fee charged to MSMEs and/or incentivize BASPs to provide support to MSMEs that they may have otherwise overlooked

The application template has been updated to request information on the BASPs standard fee structure for financing transactions. PSD will use this information to confirm fair arrangements and negotiations between BASP, MSMEs and investors on fee payments during the pre-approval process

9. Will the BASP have a choice in selecting MSMEs recommended by PSD?

Yes, see response to **Question 1** for more details.

10. Is there any possibility for the BASP to recover the transport and accommodation cost of visiting MSME either through respective MSME or PSD, especially if they are located away from the suburbs of Colombo?

No, PSD will not reimburse any additional cost other than the fees specified on the RFP on the deliverable table under section 09 of the RFP, nor they can be charged from the MSMEs. The purpose of the incentive payment is to help offset such expenses. As noted in the response to **Question 8** above, PSD expects that BASPs will still charge MSMEs and/or investors separate, market-based fees for this financing support.

11. Can the BASP get an initial mobilization grant from PSD.

No. The payment structure will strictly be as mentioned in the RFP.

12. Have PSD considered providing/offering any benefits or incentives to the financial institutions when it comes to debt restructuring?

PSD is already working with selected financial institutions, including incentives that could mobilize debt and debt restructuring but these incentives can't be added to the ones paid to BASP for the same MSME.

13. Are you looking for a local firm for this or open to an international firm?

The RFP is open to both local and international firms.

14. "Confidentiality" – we expect All the information in the proposal to be kept confidential save and except for the legal requirements. The information of the proposal contains sensitive company specific information and client specific information which shall not be revealed to other parties other than the Palladium International LLC, its officers involved in this project as well as the representatives of the USAID. Since the purpose of submission is relating to this specific RFP, we firmly believe that all information should be kept confidential and seek our consent prior to disclosure to parties other than the parties mentioned as above.

Yes, all application information will be kept confidential, and no information will be shared with third parties or without the consent of the offeror.

However, note that as part of PSD's facilitative role, the Activity may share subcontractor BASP contact information with partner MSMEs seeking financing, so that MSMEs can connect with partner BASP for support. If a BASP does not wish to have their contact information shared with partner MSMEs, they may indicate so during subcontract kick-off.

15. "Type of Contract "

i. Explain how the 'subcontract' agreement works.

Palladium LLC is a prime contractor for USAID to implement the PSD program and the BASP will be a subcontractor for Palladium LLC. Process will be explained verbally during the bidders' conference and selected BASP will be trained on how to execute this contract. Please refer to the example subcontract template included as Attachment 6 to the RFP for more details.

ii. Maximum limit on Billable amount – this imposes a limitation on the BASP as regard the number of MSMEs that it can facilitate. We assume that there is no minimum number of MSMEs to be facilitated, need more clarity.

There is no minimum number of MSMEs to be facilitated and BASPs can present their proposals based on their capacity and duration of the services offered.

iii. Monthly performance review and revision to billable amount's ceiling - it is our humble opinion that the task of raising fund for MSMEs is not straightforward whilst it is not solely dependent on the BASP's efforts. Hence, a 'monthly' evaluation is less effective. Furthermore, the reference made to terms "delayed or non-performance' are open ended where in our experience such delays occur largely from the part of the clients. Accordingly, we request to specifically state the circumstances of delays in the "Agreement" with proper yardsticks of measurement.

Performance will be judged against the quarterly financing estimated included in offerors applications (see the **Expected Results & Implementation Timeline** section of **Attachment 1 – Technical Proposal Template**). For this reason, BASPs should ensure that the timelines included in the technical proposal are realistic and feasible

considering the expected number of MSMEs supported and type of financing sought. Timelines should take MSME identification and onboarding time into account.

- b. Anticipated Contract Period of Performance – different fund-raising transactions will have different timelines depending on the readiness, grooming, and satisfying pre-requisites, types and performance of the MSMEs, macro-economic environment, regulations and approval process if any as well as the internal protocols of the financiers/ investors.**

At the same time, there is a limitation of number of clients that can be on-boarded at a given time with the resource availability and financial viability.

In light of the above, we would like to know how the contracts are extended or renewed after the 12 months as referred in the document.

BASPs will have to submit all financing applications within 12 months of contract award, as outlined in the RFP. In most cases, subcontract extensions will only be considered to allow BASPs to claim success fee payments. Such extensions are at the discretion of Palladium.

- c. Key Deliverables and Timeline – payments are related to the concept called “acceptance of application for financing”**

Deliverable 1 – Please note that an ‘application’ concept is not applicable in equity fund sourcing and is mostly applicable for debt financing through financial institutions. There is no acceptance of documents by potential investors. It is only a circulation of the fund-raising related documents (like Information Memorandum). Our engagements first phase in respect of fund raising is the completion of the IM or related documents which is the first deliverable, hence timeline should be adjusted as per the industry practice.

Please refer to the table in Annex A on page 13 of the RFP for details on what PSD considers “application” for each type of financing. In the case of equity financing, this includes:

1. A copy of the MSME’s formal request to financier for support
2. A copy of Due Diligence and SME development process
3. Copy of valuation, financial projections, pitch decks sent to investors
4. The investors written commitment to proceed with the transaction

We have revised the RFP to clarify that “formal request for support” can simply be a letter from the MSME(s) acknowledging that they understand the process, potential fees, and so on. We have also clarified that Investment Memorandums and/or term sheets would meet the requirement of an “investors written commitment to proceed with the transaction.”

BASPs must submit documentation supporting achievement of Deliverable 1 at any point during the 12-month subcontract period of performance. However, BASP performance will be judged against the timeline(s) included in the application. See response to **Question 15.iii** for details on performance.

16. “Scope”

- a. Identifying opportunities/ clients – BASP has the responsibility of identifying clients to provide support for fund raising. In our experience, it takes a significant time to on board a suitable client even though we tap many clients in the MSME sector which depends on many factors out of our control. How would these practical delays going to affect the subcontract’s performance clauses?**

See response to **Question 15.iii**

- b. We also expect PSD's active involvement to identify clients through your networks since BASPs would not deploy their entire resource team towards this project, hence, have limitations of reaching to different parts of the country.**

See response to **Question 1.**

- c. There is a reference to "BASPs will receive incentive payments, upon achievement of deliverables under Section 9, to contribute to a portion of costs incurred". Does this mean that BASP agrees a fee with the client and PSD contributes to a portion of such fees? Our comments made on the fee structure are assuming that the clients have no financial obligation to pay for the work done and it is solely taken care of by PSD. We seek a clarification in this regard.**

See response to **Question 8.**

17. Payment Structure

- a. Are those fees mentioned therein inclusive of taxes?**

Any applicable taxes to be borne by the BASP.

- b. Deliverable 1 – Fixed fees**

- i. Funding range of Empower Board – we recommend that the minimum raising through the Empower Board of the CSE be LKR 50 Mn. In terms of cost effectiveness for the issuer and investor attraction, there has to be a sufficient quantum of funds to be raised. Therefore, as a policy we do not undertake a fund raising below LKR 50 Mn for the Empower Board.**

BASPs may decide on the values of the transactions mentioned in the RFP. PSD will not require BASPs to provide support to transactions that do not meet the BASPs minimum acceptable levels of financing or support MSMEs that BASPs do believe to be capable of receiving the amount of financing sought. In fact, PSD encourages BASPs to only support financing transactions that meet the BASPs minimally acceptable feasibility standards.

- ii. Funding range through private equity – it would be possible to start with a minimum funding quantum of LKR 40 Mn.**

Same as answer above 17 b (ii), BASP are free to fund raise capital that makes sense for their cost and operating modalities.

- iii. We note a discrepancy in the fee structure mentioned in the RFP and the Attachment 2 – 'Cost Work Sheet' in respect of financing through financial institutions and debt structuring.**

There is no discrepancy. The cost work sheet shows the full fee, but the RFP shows a 50% split between deliverable 1 and deliverable 2.

- iv. We would like to further discuss on the entire fee structure with due consideration to the work scope expected and cost of resources that would be deployed by the BASPs. There could be alternative avenues to reasonably compensate for the efforts also having in mind the financial position and capability of the MSMEs that will be identified.**

The fee structure in the RFP will remain unchanged. See responses to **Questions 8 & 10** for additional information related to BASP payment and incentive fee structure.

- c. Deliverable 2 – Debt financing – We would like to discuss on the success fees further in view of the industry practices.**

The fee structure in the RFP will remain unchanged. See responses to **Questions 8 & 10** for additional information related to BASP payment and incentive fee structure.

- d. Deliverable 2 – Equity financing – industry standard minimum success fee for an equity raising of the given ranges (either by listing or PE) is 3% of the capital raised subject to a minimum fee of LKR 3,000,000. We wish to discuss these matters further and propose for alternative avenues of compensation for the efforts of BASPs.**

The fee structure in the RFP will remain unchanged. See responses to **Questions 8 & 10** for additional information related to BASP payment and incentive fee structure.

18. Is this support available to customers of Government banks?

Our mandate is to work with the institutions/organizations that are privately owned. PSD cannot provide incentives to customers of government banks or to public companies. To qualify, one or more private companies and/or individuals must have more than 51% of the ownership of the organization, and the management and daily business operations must be controlled by them.

19. For this program to work properly the following support is required

- i. Public Awareness program -**
- ii. Seminars**
- iii. Announcement**
- iv. Digital Marketing**
- v. Investor forums**

PSD promotes all program activities through financial institutions, chambers, or other lead associations in Sri Lanka. BASPs are also encouraged to raise awareness among the MSMEs through its own networks and contacts.

20. Does the BASP's have the authority to charge a service fee (transport, accommodation, and other costs) from the MSME's apart from the RFP fee structure of PSD?

Yes. See response to **Question 8** for more details.

21. Noted your comments on the fee structures and all those points raised in view of the commercial aspect of the efforts. If a BASP make arrangement with MSME for some compensation mechanism (to cover the costs) say by receiving equity shares etc. will PSD have any objection?

See response to **Question 8**.

22. What is your stance on alternative funding sources, Ex: crowd funding, and other funding methods based on context?

Yes, PSD is open to have alternative funding as long as the funding meets legal requirements, as well as other important validations that will allow PSD to check for money laundering, lobbying and terrorism Financing, etc.

23. How do you propose to create commitment by banks apart from having to enter a MOU. Experience is that banks operational level does not appear to have clues about this understanding.

PSD collaborates with three banks and one microfinance institution (HNB, DFCC, NDB Bank, and Berendina Microfinance). In addition to the MOUs with these banks, PSD also has action plans that include financial incentives, technical support and pipeline development. While BASPs may work with MSMEs to receive financing from PSD partner financial institutions, which may be more knowledgeable about MSMEs working in PSD priority sectors, BASPs are not limited to working only with PSD partners.

It will ultimately be the role of the BASP, not PSD, to identify the financial institution best suited to provide the financing required by each MSME client.

24. Is it possible for BASPs to negotiate a separate fee with investors (on top of the RFP fee PSD will pay)? Since the RFP fee is only an incentive fee.

See response to **Question 8**.

25. When we canvass for funds, is it permitted to mention that the particular investment is sought for a SME which is under a USAID Catalyst project?

MSME engagement with BASPs under this program in no way guarantees additional support to said MSMEs from the USAID CATALYZE program. Feasibility of the financing deals and strong investment cases should be the main driver of all MSME financing/investment applications. However, BASPs should be transparent and open about the support that will be provided by USAID CATALYZE under this program, to facilitate a successful transaction and financial close

When it comes to financial services that will be provided by financial institutions (debt or debt restructuring) additional information and collaboration can be agreed upon between BASP and financial institutions interested in MSMEs once BASP are contracted. When it comes to potential investors interested in providing funding for Private Equity or Debt, BASP, once contracted, can mention that they will be collaborating with USAID Catalyze in Sri Lanka financing selected MSMEs.

USAID CATALYZE is in **no way** a guarantor on behalf of partner MSMEs nor will USAID or the CATALYZE program be listed as a party in the financing agreement.