Terms of Reference

Agri-Business Incubator Ethiopia:
Strategic Options for Financial Service Offerings, Operating & Financial Model
Background

Global Programme: Innovation Centers for the Agriculture and Food Sector

Value chains in the centre of GIZ’s approach

The German Federal Ministry for Economic Cooperation and Development (BMZ) has recently launched the global programme “Green Innovation Centres for the Agriculture and Food Sector” as part of the Ministry’s global initiative “One World – No Hunger”. The global programme has the following broad implementation guidelines:

- Smallholder focus: increase productivity and profitability
- Off-farm job creation, particularly for women and youth
- Strengthening of selected value chains (farm products)
- Up-scaling of existing innovations in the selected value chains
- Linkages to agricultural technical and vocational training
- Supporting legal and administrative development for the value chains

Target group are smallholder farmers

In the Ethiopian context, GIZ’s strategic focus is productivity increase at the level of smallholder farmers. As part of the programme, two value chains (wheat and faba bean) have been selected. Through agricultural innovations at the level of the farmers’ association, private sector, or government, the programme aims to increase the productivity of smallholder farmers. The innovations can be at five levels:

1. Good agronomic practices
2. Farm inputs (e.g. seeds, fertilizers, plant protection)
3. Mechanization (e.g. modern, suitable technology)
4. Investments in the value chain (e.g. provide limited investments for technology demonstration)
5. Organizational development of farmers’ organization (e.g. facilitate access to finance for farmers, support farmers’ organizations)

Programme Objective: Farmers income and employment generation through innovation

The overall objective of the programme in Ethiopia is:

Innovations in the agriculture and food system have improved income for smallholder farming enterprises, employment and regional food supply in the Arsi-zone.

The programme has the following indicators:

1. The average gross-margin for wheat and faba bean increased by 10% for 20,000 smallholder enterprises. X% of beneficiaries are women und youth.
2. Employment in up-stream/down-stream enterprises of the wheat and faba bean value chains increased by 50 jobs.
3. The average productivity of wheat and faba bean increased by 10% for 20,000 smallholders.
4. 20,000 persons from agricultural- and up-stream / downstream enterprises have participated in extension activities and trainings.
5. 5 farmer/value chain institutions have participated in the improvement of framework conditions.
6. 2 partnerships / networks / interest based associations of value chain actors for the promotion of innovations in wheat and/or baba bean operate at zonal, national, regional and/or global level.
GIZ and BMGF Strategic alignment in the field of agribusiness promotion

The government of Ethiopia, via the Agricultural Transformation Agency (ATA), has requested assistance with the establishment of geographic investment clusters and private sector agribusiness accelerators to spur greater investment, higher agricultural productivity, and greater realized value for smallholder farmers. This request aligns with focus of the German Federal Ministry for Economic Cooperation and Development (BMZ) that has provided funding for the “Green Innovation Centres for the Agriculture and Food Sector” as part of the Ministry’s global initiative “One World – No Hunger”. The promotion of agribusiness development is a major element of the project design. It also aligns with the Bill & Melinda Gates Foundation’s strategy to provide catalytic support in the establishment of improved post-harvest and market systems as well as increased levels of both domestic and foreign investment for raising agricultural yields, value addition, and market access for farmers’ surplus production, especially for women. Against this background, BMGF and GIZ have agreed to collaborate in the establishment and strengthening of an agribusiness incubator in Ethiopia. It was agreed to conduct the design study as a joint mission, with technical expertise provided by both organizations. Building on the success of select industrial and agricultural development clusters in various parts of the world (e.g., Fundacion Chile, Fundacion Jalisco in Mexico, CENTEV in Brazil, ICRISAT in India) and the Ethiopia Sustainable Agribusiness Incubator (ESAI) in Ethiopia, BMGF has commissioned the consulting firms Precise Consult and Bain & Company to conduct a study that should outline a strategy, management structure/team, business model, business plan, and performance metrics for an agribusiness incubator in Ethiopia. The Ethiopian Agricultural Transformation Agency (ATA) is part of the study.

Design study will define the scope and business model of the incubator

The scope of the incubator will be limited to agribusiness products and services (e.g. seed companies, equipment manufacturers, service providers, extension and training services, commodity processing, rural digital financial and information services). Through the design study, GIZ and BMGF would like to understand how the incubator will overcome the challenges facing agribusiness development in Ethiopia and drive the successful implementation of the ATA’s cluster strategy for increasing smallholder productivity growth. The proposed business model should demonstrate how it can service the demands from entrepreneurs and small businesses and what risks the policy environment may pose to its success. The study should outline how it can serve as a local counterpart to the Ethiopian Investment Commission (EIC) by supporting foreign direct investors in the agribusiness development cluster either set up their own operations and/or to partner with local entrepreneurs. It is assumed that the model will emulate a venture capital oriented incubator that supports local entrepreneurs’ ability to develop business plans, create prototypes, navigate regulatory issues, access financing, and link to other potential business partners, both foreign and domestic. The incubator can facilitate larger foreign investors to establish joint ventures, take equity positions, provide technical assistance, or to partner with these entrepreneurs as key suppliers or customers. Bain & Company has been sub-contracted to do the study and development of business model for the planned industry incubator.

A Kick-Off Workshop took place on 19th October to discuss roles, workplan, and methodological approach of the design study. As a result of the workshop, areas for GIZ’s engagement and the role in the design study were identified: GIZ would provide inputs to the financial model of the incubator as well as potential financial services offered by the incubator, e.g. set up of a fund, angel network, direct investment. Furthermore, the development of the institutional and operating model and recommendations on south-south cooperation and exchange will be supported by GIZ. In order to develop these inputs, GIZ requires the service of a consulting firm.
Objectives and Deliverables of this Assignment

Objectives

GIZ requests the support of a consulting firm to provide strategic inputs with the following objectives:

- Contribute to the investor survey through interviews with relevant German private sector companies
- Provide recommendations on the financial services to incubatees to be provided by the incubator (e.g. through the setup of a seed fund, guarantee fund, angel network, etc.) based on international best practice
- Provide recommendations on the financial model of the planned GIZ-BMGF incubator itself
- Contribute to the design of the institutional set up, operating model and provide recommendations on the transition from a grant-funded project to self-sustainable institution
- Provide recommendations for the set-up of a South-South agribusiness incubator network
- Collaborate with Bain & Company to synthesize the findings into the final incubator model
- Provide inputs to GIZ on next steps in collaboration with BMGF (e.g. inputs to grant agreement)

Outputs and Deliverables

The consulting firm will be expected to deliver the following outputs:

1) Contribute to the investor perception survey by conducting interviews with German and European companies with a focus on
   - Perception of Ethiopia as an investment destination following the survey developed by Bain & Company

2) Develop profiles of select agri-business incubator/accelerator models with a focus on analysing
   - Business and financial model of the incubator itself, based on international best practices (e.g. from India, Kenya, South East Asia)
   - Financial services provided to incubatees / enterprises (e.g. grant, debt, equity, mezzanine, etc.)

3) Provide recommendations of financial service offerings of planned incubator including
   - Assessment of financial requirements of possible incubatee companies
   - Options for possible direct or indirect provision of financial services, e.g. through own seed fund, set up of angel network, guarantee fund, etc.
   - Review the options in the context of the Ethiopian financial sector regulation

4) Contribute to the design of the institutional set up, operating model and provide recommendations on the transition from a grant-funded project to self-sustainable institution
   - Review GIZ-internal experiences in setting up institutions and phasing out grant support and review international experiences
   - Provide recommendations on the transition and phasing out of donor support on the basis of the above mentioned analysis
5) Develop recommendations for financial model of the GIZ-BMGF supported Ethiopian agri-business incubator that includes
   - Different options for revenue models of the planned incubator based on international best practice and feasibility in Ethiopian context

6) Provide strategic inputs on the feasibility and interest of a South-South agri-incubator network that includes
   - Identification of possible incubator partners interested in such a network
   - Identification of value proposition of the network (e.g. business model replication, knowledge exchange between incubators, creation of an South-South agri-enterprise peer-to-peer network, etc.)

7) Synthesize findings in collaboration with Bain & Company
   - Create joint inputs to Steering Committee meeting and any follow-up meetings
   - Provide an input during each of the Steering Committee meeting

8) Attend Steering Committee Meetings and other meetings with BMGF and GIZ
   - Participate in Steering Committee Meeting in November and December
   - Participate in any preparatory and de-briefing meetings

9) Provide inputs to GIZ on next steps in collaboration with BMGF
   - Prepare inputs and internal debriefings, if necessary
   - Provide inputs to grant agreement draft

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Table 1: Deliverables and Timelines

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<tr>
<th>Deliverable</th>
<th>Activities</th>
<th>Person days</th>
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<tbody>
<tr>
<td>Contribution to investor survey</td>
<td>10-15 interviews with German companies</td>
<td>5</td>
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<tr>
<td></td>
<td>Documentation of interviews</td>
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<td></td>
<td>Synthesize findings of investor survey with Bain &amp; Company</td>
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<tr>
<td>Incubator Profiling</td>
<td>8-10 interviews with incubators in India and Africa from Intellecap and GIZ network</td>
<td>8</td>
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<tr>
<td></td>
<td>Develop profiles of incubator business and financial models</td>
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<tr>
<td></td>
<td>Develop recommendations for financial model for GIZ-BMGF incubator</td>
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<tr>
<td>Mapping of Financial Services provided by Incubators</td>
<td>Based on interviews with incubators and secondary research, analyse incubatee source of finances (e.g. grant, equity, debt)</td>
<td>8</td>
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<tr>
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<td>Create profiles of possible financial services to be offered to incubatees by the GIZ-BMGF incubator</td>
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<td>Assess feasibility in the Ethiopian context and propose financial service offerings (e.g. set up of a fund, TA-facility, voucher scheme, guarantee fund, angel network, etc.)</td>
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<tr>
<td>Review experiences of institutional set up, operating model of existing incubators &amp; provide recommendations on</td>
<td>Review other donor-funded institutions, incl. GIZ’s own experience, and analyse the phasing out of donor support (e.g. GIZ-funded Center for Responsible Business India; World Bank funded m:lab, etc.)</td>
<td>5</td>
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<td></td>
<td>Create short profiles of donor-supported institutions and</td>
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the transition from a grant-funded project to self-sustainable institution

- transition “from project to institution”
- Interviews with key GIZ actors and collecting lessons on GIZ-supported institutions
- Create short profiles and develop recommendations for GIZ-BMGF incubator

**Options for Financial Model for incubator**

- Based on review of incubator models and other donor-funded institutions, develop a financial model for the proposed GIZ-BMGF incubator

**Recommendations on South-South Incubator Network**

- Identify value proposition of a possible agri-business incubator network
- Develop recommendations and outlines of possible incubator network based on feedback from incubators

**Prepare presentation for Steering Committee Meetings**

- Consolidate findings in coordination with Bain & Company and create joint presentation for the two Steering Committee Meetings

**Participate in Field Visits, Steering Committee & Project Meetings**

- Participate in Steering Committee meetings
- Provide inputs in each of the meetings
- Conduct field research and stakeholder consultations (e.g. in order to assess local feasibility of financial model)
- Attend preparatory and debrief meetings before and after the Steering Committee meetings with GIZ and partners

**Next Steps GIZ-BMGF Cooperation**

- Provide inputs to define next steps for GIZ (e.g. inputs to BMGF grant agreement)

<table>
<thead>
<tr>
<th>Total Number of Days</th>
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<td>74</td>
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**Approach and Methodology**

- The assignment will be conducted in close cooperation with Bain & Company and will be incorporated in one final deliverable to GIZ and BMGF.
- In addition, an internal project report will be delivered to GIZ at the end of the assignment (January or February 2016)
- The assignment will involve desk research, primaries (telephone/skype interviews) and two field visits to Ethiopia.

**Timeline and Payment Schedule**

The assignment is expected to start between 23rd November and 1st of December 2015. The contract period is until 29th of February 2016. Apart from the last deliverable (Next Steps GIZ-BMGF Cooperation) the tasks have to be performed by 15th December 2015 which is the date of the study’s final Steering Committee meeting and shortly after which Bain & Company will have to submit their study report to which this consultancy contributes. The payment will be made in three instalments: 30% advance payment (contract signing), 50% (December), 20% final invoice (with submission of short project report).