Information for Development Program

Request for Expression of Interest

Scaling Up Innovation and Entrepreneurship in Developing Countries:

The Role of Private Sector Finance

Country: International

Notice/Contract Number: 1256

Publication Date: 24 June 2005

Deadline: 15 July 2005

Funding Agency: infoDev

Implementing Organization: infoDev

Contact Person: Seth Ayers, infoDev (sayers@worldbank.org)

Eligibility of Bidders:
The Consultants are expected to be a team of experts with the ability to complete a multifaceted assignment within a short timeframe and with a minimum of 8 years of experience in analyzing the role of private sector finance in supporting innovation and new business creation, particularly in developing countries.

Expression of Interest (EOI):
infoDev invites eligible consultants to indicate their interest in providing expert services to perform the following study on Scaling Up ICT Innovation and Entrepreneurship in Developing Countries: The Role of Private Sector Finance.

It is generally accepted that small and medium size enterprises (SMEs), particularly micro and small enterprises, in developing countries lack the necessary financial resources to effectively scale up and grow their businesses. Access to traditional growth capital including debt and equity is not only limited in developing countries but often prohibitively costly due to various factors such as insufficient legal and regulatory policies, and inadequate financial markets. For SMEs competing in high-technology sectors, the challenge of accessing growth capital is particularly acute as these firms possess few tangible assets that can be leveraged as collateral for loans. However, the development community’s understanding of this perceived “financing gap” is limited. This study aims to shed light on this issue by analyzing the existing resources for private capital, the impediments to access and supply and providing recommendations for concrete actions to address this challenge.
The work involved in this assignment is scheduled to be completed within approximately 4 months from the date of signing the contract agreement within an available lump-sum budget of $175,000, which includes all fees, travel, and additional related expenses.

Interested consultants must provide information indicating that they are qualified to perform the services (brochures, description of similar assignments, experience in similar conditions, availability of appropriate skills among staff, etc.). Consultants may associate to enhance their qualifications.

For this assignment, we specifically request the submission of a 5-8 page note that provides in greater detail how the consultants would conduct this assignment if selected. The note should include the following: (i) an analytical framework and a process by which the research will be conducted; (ii) a timeline that demonstrates the consultants ability to meet the deadlines as noted in the Terms of Reference below; (iii) a brief narrative on resource allocation; and (iv) brief summaries of key personnel to be involved in the work, particularly their experience that directly relates to needs of this study. In order to prepare the note, interested consultants should review the Terms of Reference, which is provided below. We suggest that the Expression of Interest, including the 5-8 page note, should not exceed 25 pages in length.

Selection will be based on the “Consultants Qualifications” (CQ) method of procurement and Consultants will be selected in accordance with the procedures set out in the World Bank's Guidelines: Selection and Employment of Consultants by World Bank Borrowers May 2004 (current edition). Electronic submission of the Expression of Interest, including the note, is preferred. The EOI can be submitted either as a Microsoft Word or PDF file. Please send your email submission to sayers@worldbank.org by Friday, July 15, 2005 before 23.30h Eastern Standard Time (EST).

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Note: More information about World Bank procurement processes and guidelines can be found on its eProcurement web site at http://www.worldbank.org/eprocurement.
**Terms of Reference**

Scaling Up Innovation and Entrepreneurship in Developing Countries:
*The Role of Private Sector Finance*

**Background**

It is generally accepted that small and medium size enterprises (SMEs), particularly micro and small enterprises, in developing countries lack the necessary financial resources to effectively scale up and grow their businesses. Access to traditional growth capital including debt and equity is not only limited in developing countries but often prohibitively costly due to various factors such as insufficient legal and regulatory policies, and inadequate financial markets. For SMEs competing in high-technology sectors, the challenge of accessing growth capital is particularly acute as these firms possess few tangible assets that can be leveraged as collateral for loans. However, the development community’s understanding of this perceived “financing gap” is limited. This study aims to shed light on this issue by analyzing the existing resources for private capital, the impediments to access and supply and providing recommendations for concrete actions to address this challenge.

The development community has tried to address this challenge by creating microfinance lending instruments and private sector investment intermediary institutions, including those supported by the International Finance Corporation (IFC), the private sector investment arm of the World Bank Group. Microfinance has made considerable strides in improving access to capital for individuals seeking USD $10 to more than $1,000 to start a business as in the case of the Grameen Phone project. Similarly, the IFC and other investment institutions have improved access to capital for established firms seeking USD $5 million and above to expand their operations nationally and internationally. Despite the success of these efforts, the development community has yet to address access to capital for SMEs seeking USD $25,000 to $1 million to scale up their businesses and take them beyond microfinance to attract private capital markets.

From infoDev’s recent analytical work, regional workshops and Global Forum on Business Incubation, it has become increasingly clear that the financing gap, as described above, is a significant impediment to private-sector innovation and economic growth in developing countries. The reasons for this financing gap between small-scale capital sources (self-financing and microfinance institutions) and larger sources of growth capital (banks, private capital markets) are two-fold. First, the tasks involved in identifying which SMEs are viable investment opportunities are too cumbersome and costly. Second, these SMEs typically need not only growth capital but also technical assistance and capacity building to manage the growth of their businesses both efficiently and sustainably. Thus, the transaction costs for private investors, relative to their return on these modest investments, are too high.

**infoDev’s Incubator Initiative**

In 2002, infoDev launched its Incubator Initiative aimed at fostering entrepreneurship and private sector development in developing countries. A Network of 43 incubators is currently being supported by: (i) providing the necessary financial and technical assistance to help existing business incubators improve and scale up their operations; (ii) facilitating the development of business incubators in areas that are not currently served or are underserved by existing incubators; (iii) encouraging innovative uses of ICT and entrepreneurship at the local-level and based on local needs;
and (iv) providing opportunities for the realization of economies of scale by enabling access to international markets.

infoDev is currently exploring, in consultation with its donors, ways that it can build upon the existing Incubator Initiative to help facilitate the access of developing country entrepreneurs and innovators to sources of private sector investment, including angel investors, venture capital, private equity and other sources. To this end, infoDev is proposing to launch this study to more clearly define the challenge and to provide concrete recommendations for removing impediments to access and supply of growth capital, as well as new instruments.

Scope of Work
This study will be designed to:
1. Explore the most pressing unmet needs of developing country entrepreneurs, particularly in ICT-related and ICT-enabled sectors, in accessing private capital;
2. Analyze what sources of private capital currently exist, and their adequacy to meet these needs;
3. Analyze the principal impediments facing these entrepreneurs, including incubated businesses, in attracting and accessing these sources of capital;
4. Analyze the principal impediments facing private capital investors, particularly local angel investors, in making early-stage investments in these entrepreneurs;
5. Analyze the principal characteristics of the broader enabling environment (institutional, policy, economic, etc.) that contribute to these impediments;
6. Summarize cases and interventions that have addressed this need, and synthesize the lessons learned and challenges ahead.
7. Recommend strategies for building local management capacity within SMEs and within business incubators, to effectively solicit and attract venture capital to increase competitiveness and performance;
8. Recommend concrete ways that infoDev, with support of its donors, could help successful entrepreneurs to scale up by increasing their access to new sources of capital, both through direct mechanisms (venture funds, matchmaking, etc.), possible new mechanisms (with recommendations on how these can be structured), and through efforts to shape the broader enabling environment.

Indicative Phases of Work
The study will analyze the financing challenges faced by entrepreneurs and innovators in developing countries and should utilize the existing network of incubators funded by the infoDev Incubator Initiative, as well as other resources.

Given the challenge of identifying and exploring the financing challenges facing entrepreneurs on a global scale, we propose the following indicative phases of work:

- **Phase I.** Begin by analyzing what sources of private capital currently exist, the needs they are designed to meet and their adequacy in meeting those needs. Determine whether or not there exists a financing gap and if so, more clearly define it.
- **Phase II.** Determine the principal impediments facing entrepreneurs in attracting and accessing private capital, as well as the principal impediments facing private capital investors, particularly local angel investors, in making early-stage investments in these entrepreneurs.
- **Phase III.** Select 8 countries in consultation with infoDev in several regions as defined by the World Bank, for in-depth country analysis of the principal characteristics of the broader enabling environment.
environment (institutional, policy, economic, etc.) that contribute to these impediments. As part of each country analysis include several case studies of entrepreneurs and SMEs at difference stages of development that reflect the financing challenges faced at different stages, and the role that supporting institutions, such as business incubators, have played if any.

- **Phase IV.** Synthesize Phase I and II into a set of concrete, targeted and actionable recommendations as outlined above in #7 and #8. Draw lessons learned and comparisons across the countries, as identified in Phase III, that may provide insight into the financing challenges faced by entrepreneurs in the region, as well as globally.

### Timeline & Deliverables
The consultants will be required to deliver the following:

- **July 25, 2005** Target date for *infoDev* to have selected the consulting team
- **August 1, 2005** Submission of detailed work program. *infoDev* would prefer to meet with the key members of the consulting team in Washington, DC to discuss the work program and delivery of the study.
- **September 6, 2005** Submission of first draft of the study and the proposed eight countries for analysis (Phases I and II)
- **October 11, 2005** Submission of second draft of the study and presentation material for the workshop (Phases III and IV)
- **Mid-October 2005** Target date for the workshop with key policymakers and stakeholders
- **November 1, 2005** Submission of the final study, including an executive summary, which incorporates feedback received during the workshop

### Available Lump-Sum Budget
The work involved in this assignment is schedule to be completed within approximately 4 months from the date of signing the contract agreement within an available lump-sum budget of $175,000, which includes all fees, travel, and additional related expenses.

### About *infoDev*
*infoDev* is a consortium of international development agencies, working in close cooperation with partners from civil society and the private sector, and assisted by an expert secretariat housed at the World Bank. Its mission is to help developing countries and their international partners use information and communication technologies (ICT) broadly and effectively as tools of poverty reduction, sustainable economic growth, and empowerment of individuals and communities. Its work is rooted in the conviction that information and communication are indispensable elements of effective and responsive institutions (including governments), markets and societies. [www.infodev.org](http://www.infodev.org)