# Technical advice – Automotive manufacturing sector in East Africa

InfraCo Africa kindly requests a fee quote for the following services, which are confidential.

#### InfraCo Africa

InfraCo Africa seeks to alleviate poverty by mobilising investment into infrastructure projects across Sub-Sahara Africa (SSA). This is done by funding teams of experienced project developers or by investing directly into projects which needs the financial commitment and leverage that InfraCo Africa can bring. InfraCo Africa's support reduces the risks and costs associated with early-stage project development, ensuring that a project develops from concept to a bankable investment opportunity.

InfraCo Africa is part of the Private Infrastructure Development Group (PIDG). Established in 2004, InfraCo Africa is managed as a private company although funded by the governments of the UK (DFID), the Netherlands (DGIS) and Switzerland (SECO). InfraCo Africa's projects have mobilised over US$2 billion of investment and have provided new infrastructure for approximately 13 million people, improving living standards and powering economic growth in sub-Saharan Africa.

In 2019, InfraCo Africa launched its investment arm, InfraCo Africa Investment (**InvestCo**), an entity dedicated to undertaking strategic direct equity investments.

#### The target

The target is an East African Automobile Original Equipment Manufacturer (OEM) which designs, manufactures and sells durable, affordable vehicles specifically for the East African consumer at a price more attainable by the mass market. The target uses simplified design concepts to produce efficient and low-cost vehicles that can compete with second-hand vehicles that dominate the East African automotive market. The target is primarily focused on production, retail and distribution of cars and provides after-sales support in servicing and spare part sales. After a prototype developed couple of years ago, the target used its first round of funding to launch the 1st car model which was fully sold. Following a positive reception from the market, the target incorporated product improvement requests into the development of its new car, the 2nd car model. This model will be built with ~25% of East african components. This percentage is expected to reach 40% in the near future. In parallel, to accelerate its margin growth, the target will launch another model (a larger one), assembled locally with foreign components. The target is currently finalising a partnership agreement with an Asian supplier. The time-to-market for this model will be considerably reduced. It will allow the target to accelerate its revenue growth and profitability.

#### Background

InvestCo is considering investing a direct equity into the target. This is yet to be negotiated.

More information about the target are available upon request only.

Therefore, InvestCo needs to undertake technical due diligence to assess project risks with a detailed review of all technical aspects of the target car models as this investment will represent the first one in the automotive manufacturing sector in East Africa.

InvestCo is looking to appoint a consultant who will analyse the relevant project documents and processes, highlight red flags and potential liabilities and also provide guidance on how to address them in respect of the following scope of work (the “**Scope of Work**”):

1. **Market Positioning**
2. Ensure that the market positioning of the target car models is correct, especially in terms of affordability/attainability; – if possible provide a benchmark/landscape;

InvestCo is looking for an assessment of the existing market in East African, customer demand (volume, requirements and affordability) and market position relative to competitor landscape.  The aim is to provide an independent view on the likely market share and number of units sold.

1. **Product Design**
2. Review the selection of suppliers, technical choice of contractors and sourcing of materials; This should focus on the main systems, subsystems and key components.

Are they procuring the right components from the right suppliers with the right logistics?

1. Confirm cost estimates reflecting the engineering design, to a plus or minus 25% level;

This relates to the costs of developing the new model development costs, including any certification and testing required.

1. Review the proposed engineering design, performance specifications and operations of the target cars, considering both internal and external components and operational efficiency;

This is the technical DD, which needs to particularly focus on the potential for latent defects, safety recalls and product liability claims and includes the following tasks:

* 1. Review of target cars design process/optimisation criteria;
	2. Confirmation of planned target car design against typically affordable/attainable cars in the East Africa region;
	3. Confirm that the process for technical system design;
	4. Review maintenance plans and local availability of spare parts;
	5. Review of the selected components against the required design life.
1. **Manufacturing Arrangements**
2. Evaluate development and installation costs, operations planning and subsequent scheduling. This relates to the manufacturing facility;
3. Carry out assessment of operations and maintenance strategy and budget including, but not limited to, staffing, equipment needs, IT systems, inventory management systems, consumables, security, utilities, HSES, etc. ;

This relates to a high level review of the manufacturing facility against good industry practice for cost efficiency and health safety and environment.

1. Confirm that the process for technical system design and sizing of the manufacturing system is appropriate and correct;
2. Review staffing for the operations and maintenance plans;
3. Review of the selected manufacturing / assembly components against the required design life, operation and maintenance costs and logistical challenges of unscheduled maintenance.

**VI. Reporting**

1. Present a table of red flags with a traffic light system ranking their importance to the operation and risk performance of the cars and suggesting potential mitigation strategies. Potential indicators could include: design methodology, future proofness, engineering, component quality, installation and documentation etc.

This could take the form of a brief introduction and conclusions along with a table of issues identified ranked along the following lines:

1. Fatal flaws;
2. Critical issues that need to be addressed before investment;
3. Issues that have a material impact on economics or HSES;
4. Issues that are not in line with good industry practice.

**Technical design**

This subsection covers the following tasks:

1. Review of target cars design process/optimisation criteria;
2. Confirmation of planned target car design against typically affordable/attainable cars in the East Africa region;
3. Confirm that the process for technical system design and sizing of the manufacturing system is appropriate and correct;
4. Analyse potential liabilities related to the technical design;
5. Review staffing for the operations and maintenance plans;
6. Review of the selected components against the required design life, operation and maintenance costs and logistical challenges of unscheduled maintenance.

**InvestCo wants to understand**:

* Technical specifications of the target cars and existing capability;
* Competitive landscape in East Africa;
* Market potential and segment-wise trends.

# Current Available Information

The target has undertaken the following to date:

* Successfully commercialised its 1st car model;
* Specifications for planned car models (2nd car model);
* Specifications for its new assembly plant (Leased facility area);
* An Environmental impact assessment undertook a few years ago;
* A data room has been established and the target are available for.

The following information will be available for the Consultant to review upon award.

# Requirements

#### Deliverables schedule

The study is expected to start as soon as possible. The work is expected to take between 4 to 5 weeks to complete, including time for InvestCo to review the documents.

InvestCo will require a draft report covering the requirements no later than three weeks from appointment.

A final report should be provided two weeks after receiving a consolidated set of comments from InvestCo.

Given the short timelines, we would propose that InvestCo organises the following during our consultancy assignment:

* Sets up a data room with all the required information.
* Makes available a contact person who has access to all documentation and ideally also on-ground operational experience.
* Organises a kick-off meeting and weekly catch up sessions to share progress updates, address questions and if necessary, depending on the available time and budget, adjust aspects of the work scope.

# Guidelines for proposal

The consultant should provide fixed price quotations meeting the requirements above. The consultant should propose a methodology based on the defined requirements and identify a team of individuals with relevant track records and experience within the automotive sector include a table of time allocated to each team member by task; and a timeline and milestones for preparing and completing deliverables. These should include time and costs for project management, reporting and deliverables.

Since InfraCo Africa is donor-funded, InfraCo Africa has strict anti-bribery and corruption requirements. Due to the nature of our funding, we require the consultant to include the following wording in their engagement letter:

The Consultant is required to:

1. Abide by the PIDG Operating Policies and Procedures, as applicable to the scope of work and services provided. The PIDG Operating Policies and Procedures can be found at <https://www.pidg.org/resources/?filter_cat=operating-policies-and-procedures>; and
2. Fother documents relating to the performance of the services or required to be maintained pursuant to the agreement and to have them audited by, or on behalf of, the PIDG.

In addition, restitution by the consultant is required of any amount of the funding from PIDG Members concerning which fraud and corruption have occurred.

InfraCo Africa would require the ability to share, on a limited and NDA-covered basis, this report with potential investors and other companies within PIDG.

Should you wish to be considered for this mandate, please provide a capped fee quote (including all expenses) for the scope of work described above by no **later than 09:00 (GMT) on 25th August 2020**. In preparing your capped fee quote, please take into consideration that InfraCo Africa is a donor-funded institution. Quotations should be sent to the following email address:

**Bertrand Ketchassi** – bketchassi@infracoafrica.com

**Tim Jackson** – tjackson@infracoafrica.com