

TERMS OF REFERENCE (CONSULTING SERVICES – FIRMS SELECTION)

Assignment Title: Institutional Assessment and Capacity Building of select Participating Financial Institutions onboarded by Impact Credit Guarantee Limited, with the aim to improve the uptake of Credit Guarantee Products

Reference: NG-DBN-230977-CS-QCBS

I. Background

Using the proceeds of a loan from the International PFI for Reconstruction and Development (IBRD), the Federal Government of Nigeria (FGN) intends to engage a qualified consulting firm to provide Technical Assistance (TA) to select Participating Financial Institutions (PFIs), aimed at expanding the scope of their lending to Micro, Small and Medium Enterprises (MSMEs), through credit guarantee product. The goal of the TA is to augment the level of formal credit and financial services made available to MSMEs by improving the capacity of PFIs. The capacity building shall include areas such as technology, product development, training and closing the MSME information asymmetry.

The 2017 National Survey on MSMEs reports approximately 41.5 million MSMEs, contributing 49.9 percent to the national Gross Domestic Product. However, less than 5% of MSMEs have access to finance.

This TA is planned to support the roll-out of the credit guarantee products of Impact Credit Guarantee Limited (ICGL), a wholly owned subsidiary of the Development PFI of Nigeria (DBN). ICGL commenced operations in 2019, issuing its first guarantee in December 2019. As of 31 December 2020, ICGL had guaranteed loans totaling NGN 10.4 billion from 6 PFIs, reaching 1,750 MSMEs, of which 20.9 percent were first time borrowers and 36.9 percent were youths.

ICGL has selected the top 5 PFIs, comprising 4 commercial banks and 1 microfinance bank as being eligible; given the need and opportunity to ramp up guarantee volumes from these PFIs. These 5 PFIs were selected from the pool of PFIs that the Company currently cooperates with. The selection criteria are as follows:

- Length of relationship between ICGL and PFI - PFIs in relationship with ICGL for not less than 6 months
- Volume of business: Average monthly guarantee volume of less than N500million
- Capacity of PFI to do more business with ICGL, based on the size of its MSME portfolio relative to the business with ICGL
- Level of difficulty currently experienced with the PFI

In addition to the review of the selected PFIs, this TA will cover the review of ICGL product and development of necessary products to support the implementation of the Company's COVID-19 strategy.

II. Objectives of the Assignment

ICGL intends to engage a consulting firm (“the Consultant”) to provide support in identifying the capacity requirements of the select PFIs, with a view to improving the uptake of the ICGL’s credit guarantee products, expanding outreach to MSMEs; recommending appropriate solutions to the identified gap(s) and need(s); and facilitating deployment of the solutions.

III. Scope of the Services

The consultant is expected to support the selected 5 PFIs through a two-phase process:

1. The first phase entails undertaking an institutional assessment of the selected PFIs’ specific needs and the development of a detailed work plan for each PFI, including suggestions as regards product design and identification of possible solutions most suited to address identified gaps; as well as the development of products and programs required for the implementation of ICGL’s COVID-19 strategy
2. The second phase will support roll-out of the agreed solutions from the first phase of the project.

At project inception the Consultant shall organize an orientation session for designated ICGL staff to communicate the approach and methods to be adopted during project implementation (e.g., methodology, reporting, expected outcomes).

At project end, the Consultant shall organize a close-out workshop for ICGL’s management to present the deliverables, report on findings/lessons learnt and make recommendations as regards follow-up.

Detailed activities for each of the phases are presented below:

Phase I: Institutional Assessment and Formulation of TA Plan

- Review of existing MSME units or teams within each PFI to determine specific strengths, weaknesses, technical short-comings, and gaps, including staffing level and capacity in lending to MSMEs.
- Review of MSME products and services currently being offered by each PFI, including target segments, scope of engagement, limitations of products and services offered (terms, conditions, and requirements etc.).
- Identification of areas where technical assistance would be warranted and development of a detailed work plan for implementation of technical assistance for each PFI. Work plans will outline measurable goals and objectives to be accomplished within a defined timeframe, including time bound deliverables for each of the PFIs.
- Design and recommend solutions for curing the gap(s) identified in each PFI.
- Draft Technical Cooperation Agreement to be signed between each PFI and ICGL, outlining agreed services to be provided, the PFIs’ obligations under the technical

assistance program, and envisaged reporting as regards outcomes (for monitoring and evaluation purposes).

- Design of guarantee products and programs to support ICGL's COVID-19 strategy

Phase 2: Technical Assistance: Implementation

Co-ordinate the implementation of the proposed solutions to the gap(s) identified at the assessment stage. These solutions could include, but not limited to:

- Training and mentoring of account officers, relationship managers, branch managers, MSME managers, credit committee and credit risk management staff on application of credit guarantee product to mitigate risk and grow loan to MSMEs.
- Enhancing the PFIs' technology platforms as regards data analysis, segment targeting, analysis of debt service capacity, cash-flow funding structures, expedited loan origination processes, portfolio servicing, monitoring, reporting and risk management etc.
- Enhancement of PFI reporting capability for ease of portfolio monitoring.
- Product development based on outcome of research into MSME financing needs.
- Development of workflow and technology interfaces to facilitate fast and easy access by MSME

The final list of solutions will be as proposed by the consultants, approved by the ICGL Chief Executive Officer and agreed with the select PFIs. The above listed solutions are mere suggestions and generic and not exhaustive.

IV. Schedule and Duration

The TA program is expected to be completed within 12 months. The following designates the level of effort envisaged. The Consultant will be expected to pay heed to the limited absorptive capacity of the selected PFIs and allow time for learning/adoption of technical assistance.

V. Expected Outcome

The following outcomes are envisaged at the end of the TA program:

- A detailed report on the gaps identified from the selected PFIs.
- A report on suggested and recommended solution to close the gaps and meet the PFIs capacity building needs; geared towards improving the update of ICGL's guarantee products.
- Technical Cooperation Agreement between ICGL and each PFI documenting the responsibility and obligations of both parties; as well as commitment to pursue the recommended solutions to the gaps identified.

- Training of PFI staff
- ICGL's increased knowledge in the content and design of technical support required to enable PFIs increase their outreach to the MSMEs, thereby enhancing ICGL's capacity to assess the contribution of the TA in strengthening the PFIs' role in financing MSMEs, and in designing effective approaches to addressing the challenges involved.
- Implementation Report of the recommended solutions for the identified gaps.
- Guarantee products and programs to support implementation of COVID-19 strategy
- Within 18 months of completion of the TA project, the following target impact is expected.

Indicator	Target Impact
Volume of Loans Guaranteed	N5billion
Number of Loans Guaranteed	1,000
% of First Time Borrowers	30%
% of Loan to Women	20%

VI. Deliverables, Reporting and Payment Schedule

The Consultant will report to ICGL's Chief Executive Officer and will work closely on an operational/daily basis with other designated ICGL staff. The Consultant will keep ICGL management informed on work progress on an on-going basis and will discuss any challenges faced. Thus, the Consultant will keep ICGL management informed of any issues that arise in delivering TA to the selected banks that could infringe on achieving the objectives of the TA program.

All deliverables will be submitted to ICGL. Relevant information and reports concerning individual PFIs will be shared with the PFIs upon approval by ICGL.

Payment Schedule/ Milestones

- Inception Report** including the institutional assessment of each PFI and formulation of time-bound technical assistance plan and ICGL's COVID-19 products- 10% of the contract amount.
- Draft Technical Cooperation Agreement** to be signed between ICGL and each client PFI summarizing expectations and obligations under the project - 10% of the contract amount.
- Report detailing technical assistance design**, including proposed solutions to the identified gaps and PFIs needs -15% of the contract amount.
- Draft final report assessing overall outcomes of the TA program**, including implementation of the roll-out phase for each PFI, with lessons learnt and recommendations to increase efficiency and effectiveness of the TA program going forward- 35% of the contract sum.

- Final report assessing overall outcomes of the TA program and incorporating stakeholders' input from the draft report.** - 30% of the contract amount.

VII. Qualification and Experience of the Consulting Firm:

Minimum Criteria

1. Evidence of vast experience (local and/or international) with similar projects related to MSME credit guarantee and financing.
2. Evidence of experience with other credit guarantee funds.
3. Evidence of demonstrated experience in setting up and training staff in MSME finance units in large commercial PFIs and of supporting PFIs to reach out to MSMEs beyond their traditional client base, including women-owned/operated MSMEs and utilization of digital solutions.
4. Evidence of extensive capacity building experience related to strengthening the understanding and usage of credit guarantees to facilitate lending, appropriate (e.g., cash-flow based) lending techniques, use of digital solutions and process automation tailored to emerging market environments where MSME's financial record keeping and access to collateral is limited, and where weaknesses in the financial infrastructure inhibit efficient foreclosure on collateral.

For the consulting firms meeting each of the above-mentioned minimum criteria, the following additional criteria would be considered an advantage: i) demonstrated evidence of successful implementation of similar projects in Nigeria or Africa; and ii) experience on similar projects financed by international development institutions such as the World PFI Group, European PFI for Reconstruction and Development, and/or others as relevant.

Minimum Qualification for Key Staff:

1. **Team Leader.** Bachelor's degree and at least 15 years of international work experience in financial sector, with direct experience working with credit guarantees.
2. **Risk Management Specialist.** Bachelor's degree and at least 10 years of risk management experience in the financial sector, focused on MSME banking, including direct experience with risk management associated with portfolio monitoring & reporting; use of credit guarantee as a tool to improve MSME access to finance; and novel MSME lending approaches in emerging markets (e.g., cash flow-based lending, digital financial services).
3. **Credit Operations Specialist.** Bachelor's degree and at least 10 years of credit operations in financial sector focused on MSME banking, including direct experience with credit operations associated with deploying and utilizing credit guarantees in MSME lending and prior experience with credit guarantees.

4. **IT/MIS Specialist.** Bachelor's degree and at least 10 years of information technology and management information systems in financial sector, including systems design, process automation and digital solutions and prior experience with credit guarantees.
5. **Product Development.** Bachelor's degree and at least 10 years' experience in product development in the financial sector focused in MSME banking.

The Consultant is expected to be able to conduct work on-site with selected PFIs and will otherwise be responsible to secure all relevant facilities for project implementation (e.g., transport, accommodation, communication, etc.)