TERMS OF REFERENCE

Internal Capacity Building for MSME Lending

1. Background

Outside the mining sector, the Mongolian economy is largely dominated by MSMEs, which accounted for 82 per cent of all companies and 70 per cent of total employment in 2013-2014. However, many MSMEs still report gaps in terms of access to finance based on the survey conducted by Khan Bank in 2016.

Since the arrival of a new CEO, Mr John Bell in 2016 a new strategy was devised by Khan Bank, which identifies MSMEs as one of the priority segments for future growth. Khan Bank aims to become the reference bank for MSMEs in Mongolia. In 2016 Khan Bank re-defined its internal definition of MSMEs and identified around 7,000 of potential new SME clients.

The EBRD (the ‘Bank’) senior unsecured loan of up to USD 30 million to Khan Bank (the “Client”) will increase funding available to Mongolian MSMEs, which are currently underserved by the local banking sector.

The EBRD Loan will be supported by technical assistance in the form of capacity building trainings. The TC will assist the Client in training its employees on MSME banking and finance topics. The trainings will include MSME specific concepts including, but not limited to risk, sales and marketing with a ‘training-of-trainers’ element. The project will help Khan Bank to offer a broader variety of products and transfer know-how to management and staff which aim to improve the bank’s MSME lending skills.

The Client intends to engage a consultant (the “Consultant”) to assist them to expand their capacities in MSME lending to effectively and efficiently provide (multi-purpose) MSME loans to enterprises across the country on a sustainable basis (the “Assignment”).

2. Objectives

The Assignment aims to build internal capacity at the bank through recommendations, assistance in implementation measures aiming at expanding MSME lending and risk management, as well as staff training in MSME lending. Review the bank’s MSME strategy, current MSME product range, assist with new product development reflecting the Client’s strategy and market needs;

3. Scope of Services

The Consultant will be required to undertake the below listed tasks, all with detailed reference to addressing the Objectives of the assignment.

3.1 Internal Capacity Building for MSME Lending

1. Review the Client’s MSME strategy and current MSME Program, and suggest areas for improvement, if warranted, also in the context of tasks outlined below;
2. Provide advice on general MSME implementation process, including in the area of sub loan underwriting decisions, portfolio monitoring & management, marketing & sales, internal controls, and risk management;

3. Develop a strategy for expansion into strategic regions through new channels of distribution (both remote and physical channels) to lower the bank processing and operating costs also taking into consideration the local characteristics of mobile internet penetration;

4. Design a strategy for marketing and sales and building-up the portfolio, attracting customers in new geographic and product areas;

5. Review MSME product range and provide recommendations for optimisation and/or diversification reflecting the Client’s strategy and market needs;

6. Assist with development of new products and propose measures (e.g., incentive schemes) to attract MSMEs to register, identify & enter in the formal economy;

7. Undergo a “training needs” assessment with management and staff to identify the training needs for strengthening the entire transaction cycle for MSME lending and other areas of the Client. Design and conduct training for all those areas where training needs have been identified.

8. Design and conduct an ongoing programme of classroom seminars, workshops and on-the-job training for loan officers, branch managers and other staff members on all relevant aspects of MSME lending (trainings to be provided in English and in local language on a needs basis). The trainings should include technical, organisation and soft skill knowledge. The Consultant will liaise with EBRD’s Environment and Sustainability (“E&S”) Department to obtain training and guidance materials for the inclusion of the EBRD’s Environmental and Social Risk Management Procedures for MSME lending into the design of the classroom training. The Consultant should also undertake the EBRD’s E&S E-learning online training programme specifically the module on MSME lending which also includes case studies. Access to the training is free of charge and can be requested via the website http://ebrd.coastlinesolutions.com/GUI_loginEBRD_ES.asp. The Consultant should also encourage KB staff to register for access to the on-line training programme for their reference.

9. Conduct training for loan officers to perform credit and cash flow analysis of MSMEs, underwriting, loan monitoring and loan recovery.

10. Conduct training for relationship managers on sales and marketing tools to address MSMEs.

11. Assist the Client in developing adequate in-house training capacities on risk management, (underwriting, credit and cash flow analysis, monitoring and recovery) and sales & marketing.

12. Design and implement the “training-of-trainers” programme in order to ensure the successful delivery and sustainability of the TC Assignment; prepare a full range of staff and loan officer training materials based the bank’s products, policies and procedures, and train internal trainers in the development, use and teaching of the materials.

4. Implementation Arrangements and Deliverables

The Consultant shall report to The Client management on all aspects of the Assignment. The Consultant will work with The Client’s management and staff. The Client will designate an employee to co-ordinate the day-to-day activities under the Assignment. The General
Manager and department managers will be involved in the structuring of trainings and monitoring to ensure buy-in and effective transfer of skills during the Assignment. The Client will provide the Consultant with access to all relevant documentation/information to successfully complete the Assignment.

The Bank’s Operation Leader (OL) for this project will be [name]. The OL will be the main co-ordinator of the assignment and will closely monitor its progress together with the selected EBRD project team.

Training materials and documents produced by the Consultant will generally be expected to be provided in English only, with The Client taking care of translation into local language at their cost as may be necessary. However, the Consultant may be required to arrange the translation (into English/local language) of some documents (to be agreed with The Client/EBRD), such as the final report or key summaries of the project, and provision a portion of the project budget for this.

The Client will be responsible for the provision of training venues and hire. The Consultant will be responsible for all costs related to training (training materials, presentations, refreshments/meals during training events).

The Client will be responsible for all local arrangements including provision of sufficient office space, office equipment and IT connections. Where necessary, The Client will provide for additional expenses related to local transportation, and accommodation to training events.

The duration of the assignment will be 12 months. The EBRD will endeavour to assist with initial meetings and introductions where possible but the Consultant will be responsible for ensuring all necessary meetings take place.

5. Deliverables and reporting

5.1. Deliverables

The following deliverables are envisaged to be achieved and outputs reported on:

MSME lending expansion, risk management and lending processes

- Recommendations for improvement of MSME lending cycle, process and procedures provided and implemented;

- MSME expansion, marketing and sales strategies and new products developed and piloted;

- Two to three regional branches test-pilot new products and/or processes;

- At least 3 trainers trained and 20 staff received coaching and on-the-job training;

- Internal rating system developed.

- 1 best-practice underwriting criteria developed
Credit scoring

- Credit scoring function assessed

A detailed workplan will be prepared taking into account the findings of the Inception Report, and may be modified from time to time. The deliverables and outputs above will be fine-tuned, modified as necessary, and agreed upon for each stage as a result of the workplan to be prepared by the Consultant. Other deliverables may be established at the inception phase within the parameters of the scope of the assignment.

Should the Consultant be of the opinion at any stage of project implementation that the deliverables cannot be achieved to a certain extent; the Consultant shall inform EBRD and KB immediately. If, in the reasonable opinion of EBRD and KB, the information provided by Consultant is sufficient, the deliverables/results to be achieved by the Consultant under the assignment may be adjusted accordingly.

The Consultant shall undertake pre and post training tests to assess the client’s improved knowledge during the project.

5.2. Reporting

Reporting will be on a regular basis to the EBRD and KB and will consist of the following:

(a) An inception report one month after commencement of the assignment summarising the launch of the assignment, first findings,

(b) An assignment workplan based on the findings of the inception report (to be discussed and approved by EBRD and KB) and suggesting task modifications in the scope where warranted;

(c) Short monthly performance updates;

(d) Quarterly performance reports with detailed summaries of activities and deliverables for the reporting period and key cumulative deliverables/results from the commencement of the assignment;

(e) A draft final report within twenty calendar days after the end of the assignment, summarising all activities and deliverables/results in detail and commenting on key areas for KB’s focus in the near- to medium-term. The report should also include a description of any issues/problems that have arisen that require resolution and any other points the Consultant would like to bring to the attention of the EBRD and KB. Any comments provided by EBRD and KB on the draft report should be addressed in the final report to be submitted within two week from the time when such comments are released.

The reports shall contain a balanced mix of textual information, tables and charts suitable for analysis and management decision making. All reports shall be presented in electronic formats without password- and copy-protection. Standard formats include Microsoft Word, Microsoft Excel and Adobe PDF. Paper or digital copies on CDs may also be requested.
Certain interim reports and documentation can be provided in English and/or Russian in coordination with KB and EBRD. Key finding and recommendations and key parts of all reports must also be provided in English.

Additional ad-hoc reports may be requested by the EBRD and/or KB.

5. Donor Visibility

The donor funding for the project requires adequate visibility for its contribution. The Consultant shall properly illustrate donor support during the assignment and collect evidence of donor visibility, such as proper presentation of donor support at workshops, in media coverage, official notices and press releases, reports and publications referring to the project. The final report shall detail the ways in which the donor's visibility requirements were adhered to.