



CREDIT GUARANTEE FUND AFGHANISTAN

**Short-term Technical Assistance  
Terms of Reference / Scope of Work**

Date: July 04, 2024

<b>Assignment</b>	<b>OXUS Credit Risk Management Improvement</b>	
<b>Start Date</b>	06.10.2024	
<b>End Date</b>	19.12.2024, or the final acceptance of the final deliverable to be provided hereunder, whatever occurs later	
<b>Reports to</b>	<i>Name - Title:</i>	Hileleule Getachew Tesfaye, TA Analyst
	<i>E-mail:</i>	<a href="mailto:h.tesfaye@acgf.de">h.tesfaye@acgf.de</a>
<b>Contract Type</b>	Lump sum as per the acceptance of the achieved deliverables	

**1. Background**

**1.1. EMERGE Project Background**

The Afghanistan Empowering Microfinance and Enterprises for Resilience and Growth (EMERGE) Project aims to build sustainable solutions for developing both the demand for and supply of finance for micro and small enterprises in Afghanistan, prioritizing women's financial inclusion. The project will bolster the stability of the microfinance sector by providing performance-based capital support grants (linked to sponsors' own capital injections). Additionally, the operation will provide support to Microfinance Providers (MFPs) as they transition to Islamic Finance through Shariah-compliant product development and operational capacity building. The project addresses gaps in access to finance, which disproportionately impact women. It also aims to improve economic agency and provide job opportunities to targeted female beneficiaries. The project aligns with the need to deliver to women and ensure the participation of women.

The component that ACGF implements will strengthen the supply of finance to micro and small enterprises in Afghanistan through provision of performance-based Capital Support Grants as well as Technical Assistance (TA). The TA Activities, of which this assignment will be part of, aim to deepen the sector and to enhance its outreach by focusing on the deployment of Shariah-compliant products, digitization, and operational capacity building.

**1.2. Institutional Background**

The ACGF - Afghan Credit Guarantee Foundation ("**ACGF**") was established in September 2014 by the German Federal Ministry for Economic Cooperation and Development ("**BMZ**") and DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH ("**DEG**") with approval and support from



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the Government of the Islamic Republic of Afghanistan and from the Central Bank of Afghanistan as well as from the Governments of both the United States of America and the Federal Republic of Germany.

ACGF has received all financial resources of a previous guarantee project managed by DEG, including its entire outstanding guarantee portfolio, and has been managing all operations since the beginning of 2015. ACGF provides partial guarantees to Afghan financial institutions which provide credit to local micro, small and medium enterprises (“**MSMEs**”). It also provides technical assistance (“**TA**”) to Afghan financial and other institutions and matching grants to MSMEs.. ACGF is supported by its 100 per cent subsidiary SME Client Support Afghanistan LLC (“**SCSA**”), a Kabul-based financial consulting company focused on providing ancillary services to ACGF in the areas of credit guarantee business including TA for Afghan PIs on behalf of ACGF.

ACGF’s mandate is to contribute to strengthening the emerging financial sector and to developing private-sector capacity in Afghanistan, thus, to support the creation of employment and income. ACGF facilitates access to finance for Afghan MSMEs. ACGF’s objectives are achieved mainly by sharing credit risk with the Afghan partner financial institutions (“**Pis**”) by providing credit guarantees for MSMEs and by providing comprehensive technical assistance (“**TA**”, training, coaching, product development, risk management improvements etc.).

As per the end of March 2024, ACGF (including its legal predecessor) has issued approx. 12,900 guarantees to support a combined disbursement of USD 267m in MSME loans. The market share of ACGF was approx. 50 per cent of all MSME loans outstanding by banks and MFIs in Afghanistan. The average net loss rate since inception is 6.3% p.a. ACGF estimates a retention of close to 52,000 employees by unique borrower of the guaranteed businesses and creation of approx. 12,600 additional jobs.

### **1.3. Background to Assignment**

In 2018, a consultant developed several credit risk management tools for OXUS (e.g. vintage analysis, transition matrix, etc.). The tools have been developed for OXUS’ conventional lending operations which do not fully correspond to today’s operational requirements. Since OXUS does currently not dispose of sufficient inhouse capacity to adjust the respective tools and processes, OXUS’ Risk Manager currently enters the data manually to execute respective analyses. The process is inefficient and unsustainable, therefore OXUS requested external support to perform an adequacy check of the respective tools and processes and assess the improvement needs thereof in order to align them with modified operational requirements as well as international best practices.

In 2022/2023, ACGF had commissioned an external Consultant to conduct a Viability Assessment of OXUS. This assessment, below others, included an assessment of institutional capacity and competency as well their operational viability for further cooperation. Besides the general positive conclusion of the report, several efficiency gaps of OXUS’ operations have been identified. Weaknesses include multi-layer control setups that are inefficient in terms of cost and quality, decision making processes, and monitoring processes by Risk Department.

In addition, OXUS' risk officers have received trainings by OXUS' Training Department only. These trainings so far have only covered very basic risk management practices. OXUS therefore requested a training for its risk officers that focusses on credit risk management.

## **2. The Assignment**

### **2.1. Summary**

OXUS has requested external support to assess adequacy of its credit risk management process/tools and adapt them to international best practices and changed local requirements. The tools currently in use have been developed in 2018 by an external party and since then have not seen any adjustments. In addition, OXUS has requested advanced credit risk management training for its risk officers. Further, a viability assessment of OXUS (commissioned by ACGF) has identified efficiency gaps in OXUS' internal control processes that shall be addressed by this assignment.

The consultant will start with a review of OXUS' current policies, procedures, and tools in place to assess whether the respective tools are designed according to international best practices and comply with the new local requirements since the change in regime in 2021. Further, the Consultant shall assess whether OXUS has sufficient credit risk management tools in place to allow for a profound credit risk management aligned with OXUS' needs. The assessment shall also consider the set up and communication channels within the Risk Department. In addition, the Consultant will assess how the Risk Department uses the results and information delivered through the use of the respective tools for the decision-making processes at the institution (e.g., in risk committees). In all assessments, the Consultant will consider the operating environment in Afghanistan and resulting adaptation needs of processes/tools to allow practical use thereof.

Additionally, the Consultant will review the Viability Assessment of OXUS produced in 2023 that indicates optimization opportunities of several risk-related processes from an efficiency and timeliness perspective and take those into account in the assessment.

The Consultant, OXUS and ACGF hold discussions and decide on improvements to be implemented by consultant. Based on the discussions, the Consultant develops an action plan.

Based on the assessment and a joint discussion between the Consultant, OXUS and ACGF, all parties will agree on improvements to be implemented within the assignment scope.

In close cooperation with OXUS, the Consultant will update policies and procedures as well as the respective tools for credit risk management and develop and implement new ones, if necessary. The Consultant will ensure close coordination and understanding of all updates by relevant staff. Further, the processes associated with the enhanced or newly developed tools will be documented in a manner that can be easily understood by all members of the Risk Department.

Finally, the Consultant will provide a credit risk management training for OXUS' Risk Department. The training shall cover the (updated) credit risk management tools and how to use the results and



information delivered by these tools, the communication channels within department and general credit risk management best practices.

The assignment will be implemented over a period of 4 months.

### 2.2. Objectives

**The primary objective** of this assignment is to improve OXUS' Credit Risk Management to enable an effective identification, monitoring and measurement of credit risk that informs decision making processes at OXUS.

**The secondary objective** of this assignment is to improve the portfolio quality of OXUS and subsequently decrease the claim requests to ACGF.

### 2.3. Result Framework

#	Expected Results	Indicators of Achievement
1.	OXUS is aware of shortcomings and improvement areas of its Credit Risk Management tools and related processes.	Assessment report including recommendations
2.	OXUS has improved Credit Risk Management tools in place.	Updated (and new) tools and detailed guideline explaining the tools and their use.
3.	OXUS Risk Department has improved capacities for credit risk management and is able to understand and use the improved (and new) tools.	Training Report. Training post assessment results.

## 3. The Proposed Implementation

### 3.1. Work Plan

No.	Phases, Activities, Deliverables	Suggested Time Frame
<b>0</b>	<b>Preparation</b>	<b>Week 1</b>
0.1	Kick-Off Call	
	<b>Deliverable 0:</b> Kick-Off Meeting Minutes	Within first week of the assignment

0.2	Consultant to collect relevant documents from OXUS (e.g., existing policies, procedures, and tools; Viability assessment report from 2023)	
0.3	OXUS to provide required documents	
<b>1</b>	<b>Assessment Phase</b>	<b>Week 2 – 6</b>
1.1	Consultant assesses adequacy and efficiency of existing policies, procedures, and tools as used, identifies gaps, and develops recommendations for improvement. The assessment will focus on credit risk management.	
1.2	The Consultant complements the assessment by conducting interviews with relevant staff at OXUS.	
	<b>Deliverable 1a:</b> Assessment report including recommendations	Within 5 weeks of the assignment
1.3	Consultant, OXUS and ACGF hold discussions and decide on improvements to be implemented by consultant. Based on the discussions, the Consultant develops an action plan.	
	<b>Deliverable 1b:</b> Meeting minutes and action plan for process and tool development/improvement	Within 6 weeks of the assignment
<b>2</b>	<b>Improvement Phase</b>	<b>Week 6 – 11</b>
2.1	Consultant updates existing credit risk management tools in close collaboration with OXUS and ACGF and develops respective guidelines for OXUS. If needed, Consultant develops additional tools. The Consultant will ensure close coordination and understanding of all updates by relevant OXUS staff and hold regular calls to explain the updates.	
	<b>Deliverable 2a:</b> Updated (and new) tools and detailed guideline explaining the tools, to enable OXUS to use and adapt the tools to future needs.	Within 9 weeks of the assignment
2.2	Consultant updates existing policies and procedure to increase efficiency. The Consultant will ensure close coordination and understanding of all updates by relevant OXUS staff and hold regular calls to explain the updates.	
	<b>Deliverable 2b:</b> Updated policies and procedures	Within 11 weeks of the assignment
<b>3</b>	<b>Capacity Building</b>	<b>Week 12 – 15</b>
3.1	Consultant conducts Training Needs Assessment with OXUS' risk officers and Risk Manager, discusses with OXUS future roles and responsibility division of as well as communication channels within the Risk Department and develops a training outline based on this information.	
	<b>Deliverable 3a:</b> Training Needs Assessment Report and outline for the training	Within 12 weeks of the assignment

3.2	Consultant, OXUS and ACGF discuss the Training Needs Assessment Report and respective training outline and agree on training plan (content, length, methodology).	
3.3	Consultant develops training material.	
3.4	Consultant conducts a credit risk management training for risk officers and Risk Manager of approximately 5 days.	
3.5	Consultant develops a training report which includes a description of the potential future training needs identified.	
	<b>Deliverable 3b:</b> Training Report	Within 15 weeks of the assignment
<b>4</b>	<b>Assignment Closing Phase</b>	<b>Week 16</b>
4.1	Assignment closing call with Oxus to discuss lessons-learnt, assignment satisfaction with assignment management and the performance of the Consultant.	
<b>Total LoE/Time frame</b>		<b>16 Weeks</b>

The Consultant will give notice to ACGF in writing or via e-mail of the completion of a deliverables and request acceptance. An approval and/or acceptance of deliverables by ACGF may require several feedback and revision rounds until deliverables are considered final. Review and acceptance of a deliverable must take place no later than 15 days after the Consultant has given notice in writing or via email of a deliverable being ready for acceptance. The Consultant should be available to hold discussions and present deliverables over conference call with ACGF/SCSA and the assignment beneficiary, when necessary.

### 3.2. Technical Details of the Assignment

#### 3.2.1. Methodology

The activities and deliverables of the assignment are anticipated to be conducted in one continuous intervention of the Consultant. The Consultant may propose additional activities, adapt the structure of the assignment or the level of effort if deemed necessary for a successful implementation of the assignment.

The Consultant is expected to coordinate with respective counterparts very closely at OXUS. The Consultant shall pay special attention to ensuring understanding of the updated and/or newly developed tools by OXUS staff as well as adjustment of the tools to local requirements and practices.

The Consultant will conduct a Training Needs Assessment of the Risk Manager and officers to define the content and length of the training. The Training Needs Assessment can be combined with the



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interviews and general assessment conducted in Phase 1 already. Length of the training shall be approximately 5 days subject to identified needs and OXUS' and ACGF's approval. Different course content shall be considered for the Risk Manager and risk officers. It is preferred that the training for the risk officers will be conducted in local language. If this is not possible, the Consultant shall develop a Training of the Trainer (ToT) training for the Risk Manager and Training Department.

Further, the Consultant needs to conduct a pre and post knowledge assessment of the training participants to allow OXUS and ACGF track progress of the participants.

Besides general credit risk management best practices and the updated (and potentially new) tools and their implementation, the training shall also cover how it can be ensured that findings retrieved by the different tools are communicated to all relevant department staff and used in decision making for credit risk management.

**3.2.1. Final outputs and Review Procedure**

<b>Deliverable</b>	<b>Estimated Week of submission</b>	<b>Percentage of contract value</b>
<b>Deliverable 0:</b> Kick-Off Meeting Minutes	Week 1	30%
<b>Deliverable 1a:</b> Assessment report including recommendations	Week 5	
<b>Deliverable 1b:</b> Meeting minutes and action plan for process and tool development/improvement	Week 6	5%
<b>Deliverable 2a:</b> Updated (and new) tools and detailed guideline explaining the tools, to enable OXUS to use and adapt the tools to future needs.	Week 9	20%
<b>Deliverable 2b:</b> Updated policies and procedures	Week 11	20%
<b>Deliverable 3a:</b> Training Needs Assessment Report and outline for the training	Week 12	5%
<b>Deliverable 3b:</b> Training Report	Week 15	20%
<b>Total percentage of Payment</b>		100%

The Consultant will report to ACGF's TA Analyst as well as to the designated contact of the PI.

The Consultant will be responsible for the timely delivery of activities and deliverables. The Consultant will give notice to ACGF in writing or via e-mail of the completion of a deliverables and request acceptance. An approval and/or acceptance of deliverables by ACGF may require several feedback and revision rounds until deliverables are considered final. Review and acceptance of a

deliverable must take place no later than 15 days after the Consultant has given notice in writing or via email of a deliverable being ready for acceptance. Acceptance of a deliverable will be communicated in writing by ACGF's TA Analyst.

Deliverables will be reviewed by the Review Committee comprising the following ACGF and OXUS staff:

- ACGF TA Analyst
- OXUS Risk Manager
- ACGF Risk Department for Deliverables 1a, 1b, 2a and 2b

### **3.2.2. Logistics**

It is strongly preferred that the Consultant will conduct the assessment phase on-site in Kabul. A second visit to conduct the training on site is not mandatory but will lead to higher rating of the submitted proposal.

All travel to Afghanistan, if applicable, will occur on the own risk of the Consultant and the Consultant will be responsible for taking all precautions necessary to ensure the safety of its representatives, employees, or sub-contractors.

Any on-site work of the Consultant can be conducted with logistical support from SCSA and in collaboration with the relevant officers and managers of the PI.

The Consultant will be responsible for the timely delivery of activities and deliverables. The Consultant will report to ACGF's Senior TA Officer as well as to the designated contact of the PI. All communication, as well as written documentation/deliverables, will be in English.

## **4. Application of Consultants**

ACGF's evaluation process is aligned with World Bank Procurement Regulations, it is fair, transparent, free of discrimination, and adheres to the provisions in this document. ACGF exercises the authority to evaluate and select the best proposal. The proposal will be the basis for negotiation and ultimately signing the contract with the selected consultant. ACGF reserve the right to decide to not implement the assignment or to terminate the procurement process if it is deemed appropriate.

### **4.1. Selection Criteria**

- a) The Consultant should be a registered legal entity and should have been in business for the last 5 years in providing Consultancy Services. (The consultant is required to provide the Copy Certificate of Incorporation issued by relevant authority in country of establishment).



- b) The consultant shall demonstrate proven experience by providing information on a minimum of 2 completed contracts with the value of USD 64,312 having executed during last 5 years of similar nature indicating the duration, value, and years of performance, which should showcase the expertise/ strength of the consultant for undertaking such assignments.
- c) Critical analysis of the TOR and proposed methodology for the assignment.
- d) Available pool of expert's disposable to the Consultant and suitable to implement the assignment. (Specific Key Experts to implement the assignment will only be evaluated as part of the technical and financial Proposal.)

#### **4.2. Guidance Note for Joint Venture and Sub-Consultants**

The requirements for consultants who intends to associate with other firm(s) in the form of a Joint Venture (JV) or Consortium or a sub-consultancy to enhance their qualifications are indicated as under:

- i. The lead partner is required to be identified clearly and state the composition and nature of their association (JV/ sub-consultant) in their EOI.
- ii. In case of a sub-consultancy, the lead partner **shall provide valid reason for proposing a sub-consultant.**

#### **4.3. Key Staff Qualification of Consultant**

The Consultant is expected to provide a pool of experts that provide the necessary assignment skills as described in this section.

##### **Required Expert Profile 1: Credit Risk Expert**

- (1) Master's degree in a subject related to the field of Economics, Business Administration, or Finance or professional training as bank officer with additional 3 years of management experience.
- (2) At least 5 years of credit risk analysis expertise and/or experience, particularly practical experience with credit risk management and design of applicable tools for credit risk management in microfinance institutions.

##### **Required Expert Profile 2: Training Expert**

- (1) Bachelor's degree in a subject related to the field of Education, Human Resources, Instructional Design, or Organizational Development, or professional training as a trainer with additional 2 years of management experience.
- (2) At least 3 years training expertise and ability to convey procedures and processes in an engaging and interpersonal manner to training participants.

Further qualifications that will be an asset and can be provided by either member of the expert pool:

- (1) Familiarity with Afghan financial sector and SME lending
- (2) Knowledge of Sharia compliant MSME lending

The qualification of the experts shall be supported with a CV and references to relevant past assignments including (a) assignment synopsis, (b) duration and period, (c) client name and contact details, (d) relevance for underlying assignment and (e) expert's respective roles, responsibilities, and LoE.

In addition to the specific assignment qualifications mentioned above, the Consultant must also meet the general requirements outlined in the Request for Expression of Interest letter.

If a sub-consultant is foreseen by the plan, then proof of sub-consultant's qualification should be provided too.