



## **REPUBLIC OF GHANA/ MINISTRY OF FINANCE**

### **GHANA DEVELOPMENT FINANCE PROJECT (P169742)**

#### **TERMS OF REFERENCE**

#### **DESIGN STUDY AND DRAFT BUSINESS PLAN FOR THE PARTIAL CREDIT GUARANTEE FACILITY REFERENCE NO. GH-GDFP-157523-CS-QCBS**

### **1. Background**

The Ministry of Finance has received financing from the World Bank towards the cost of the preparation of the Development Finance Project (the Project), which supports the establishment of the Development Bank Ghana (DBG) and the design of its future products and services.

The DBG will be a new wholesale development finance institution with the mandate to support economic transformation in Ghana by increasing the availability of credit, particularly for SMEs. The DBG is expected to focus on manufacturing, agriculture, and high-growth services (e.g., tourism, health, education, and IT), working with existing retail financial institutions (banks, specialized deposit-taking institutions, and non-bank financial institutions [SDIs]). In addition to lines of credit, the DBG is expected to offer partial credit guarantees (PCGs) to retail partner financial institutions (PFIs) to mitigate their risk of lending to certain borrowers and market segments (SMEs, women, and first time borrowers). This PCG facility is expected to complement the Ghana Agricultural Risk Insurance Fund (GIRSAL), a risk-sharing facility for agriculture and agribusiness established in 2016 by Bank of Ghana and supported by the African Development Bank. The PCG facility is also expected to complement the guarantee facilities offered by development partners and local financial institutions.

Based on preliminary assessment, the proposed PCG facility would provide guarantees to encourage financing to Ghanaian SMEs in sectors targeted by the DBG (excluding agriculture, which is served by GIRSAL); operate through eligible PFIs; and be effectively managed, supported by the best technologies and systems available in the market. The objective of the facility would be to operate at reasonable levels of risk, at minimum operational cost, and with the maximum scale prudentially possible.

### **2. Objective**

The Consultant shall conduct a detailed study/assessment and provide evidence-based recommendations and a draft business plan to inform the establishment of an effective and sustainable PCG facility. In carrying out this assignment, the Consultant shall consider the World Bank's Principles for Public Credit Guarantee Schemes for SMEs, which summarize the main characteristics of financially self-sustaining guarantee schemes.

### **3. Scope of the study**

The Consultant shall complete the following tasks in three phases:

#### **Phase 1: Feasibility Study and Business Case**

Carry out a study to assess the business and financial feasibility of establishing a PCG facility that can play a market-making role in a sustainable manner. The study should consider the guarantee facilities currently in operation in Ghana and global experiences.

During this phase, the consultant is expected to complete the following tasks:

- (i) Review global literature on credit risk sharing and identify successful examples that could be replicated or adapted for the design of the DBG's PCG facility;
- (ii) Review current and past experiences on the establishment and operation of PCG facilities in Ghana – including their mandates, track-record, drivers of success and failure – and identify specific experiences relevant to the proposed facility;
- (iii) Assess PCG schemes of local and international providers operating in Ghana (AFD Group, IFC, USAID, others), identify market gaps (missing or undersupplied guarantee products, unserved market segments and sectors, etc), and recommend options to maximize synergies between the proposed PCG facility and these PCG schemes;
- (iv) Propose changes needed in the legal and regulatory framework and prudential standards to provide an enabling environment for the PCG facility;
- (v) Estimate the current and expected demand for PCGs by financial institutions (based on interviews with at least 10 banks, including the top 5, and 8 SDIs) and estimate the volume and value of guarantees that can be provided and the incremental financing that would be generated by the new PCG facility;
- (vi) Assess the interest/expectations of financial institutions operating in Ghana (interview at least 10 banks, including the top 5, and at least 8 SDIs) and ensure that PCG's design meet their interest/expectations;
- (vii) Identify key constraints to access to finance (policy, risk aversion, etc.) and articulate how the PCG facility will mitigate such constraints;

- (viii) Propose options (with pros and cons) for the legal, institutional, and organizational structure for the PCG facility, within the framework of the DBG, to enable maximum possible outreach and efficiency; specifically, assess whether the PCG should be established as a subsidiary of the DBG, or take another legal form;
- (ix) Identify potential partners or providers (e.g., fintech with artificial intelligence solutions), national or international, that can provide automated credit risk assessment solutions that can be developed over time to support effective risk management by the proposed PCG facility. In addition, recommend the best approach to partner with such fintech(s).

## **Phase 2: Develop the business model and draft business plan for the PCG Facility**

Building on the findings of Phase 1, the Consultant shall develop a business model and draft business plan for the PCG facility, covering:

- (i) Profile of target SME beneficiaries and their needs (including focus on women-led SMEs), as well as a clear eligibility criteria for the beneficiaries and subprojects to be covered by the facility, with due consideration of the local operating environment, to ensure the Facility's additionality;
- (ii) Mandate, value proposition, and business model for the PCG Facility (description of product/service, benefits, and what will differentiate the PCG Facility from other available facilities) and frequency of time for reviewing the mandate;
- (iii) Ownership and corporate governance arrangements, paying attention to the need to ensure PCG's market credibility – articulate the roles and responsibilities of the owners/shareholders, board, and management; accountability framework (including transparency and disclosure); and relationship between the PCG facility and DBG;
- (iv) Financial structure: level, sources, and timing of capitalization;
- (v) Key functions and processes (e.g., risk management, monitoring and evaluation, investment policy, application, appraisal, claim processing, recoveries) required for the successful and sustainable operation of the PCG facility and recommend strategies to build the requisite capacity;
- (vi) List and description of the required operational policies and procedures (e.g., risk management policy, investment policy, claim management), MIS systems, and other requirements for the PCG Facility to perform its functions and meet its objectives;
- (vii) Propose types of credits to be eligible for guarantee coverage by the PCG facility (e.g., lines of credit, credit, factoring, leasing, letter of credit) and the eligibility criteria of retail financial institutions and the methodology to select them;

- (viii) Advice (with pros and cons) on the guarantee assignment approach (portfolio guarantees, individual guarantees, or hybrid) and on the internal capacity that the PCG facility needs to manage the risks associated with each approach;
- (ix) Coverage, term, and pricing/fee structure, taking into consideration market practices and the need to ensure the financial sustainability of the PCG Facility;
- (x) Identify strategic partners (e.g., reinsurers, credit bureaus, fintech companies, and others) and their comparative advantage, and propose an approach for the PCG Facility to establish partnerships with such strategic partners;
- (xi) Core resources (including human resources at management and staff levels) and skills required for the launch and first few years of operation of the PCG Facility, and related cost estimates;
- (xii) Financial projections/financial model (including associated assumptions, such as potential funding to be attracted by private investors) for the first five years of operations to demonstrate the conditions for the viability of the PCG facility; in addition, propose key KPIs (related to economic and financial additionality, outreach, efficiency, and sustainability) to monitor the PCG’s performance;
- (xiii) Implementation plan outlining well-sequenced steps, from inception to full operationalization of the PCG facility, aligned with the implementation plan of the DBG;
- (xiv) Critical factors for the success of the PCG facility and ways to manage risks to its objectives and key strategies; and

**Phase 3: Develop the PCG Facility’s Operations Manual**

Based on the business model and business plan:

- (i) Develop the PCG facility’s draft Operations Manual, including detailed procedures on underwriting, pricing, risk management, investments, claim management, monitoring and evaluation, key templates and sample agreements, etc

**4. Deliverables, Timeline, Payment**

The Consultant shall prepare the following deliverables:

<b>Deliverable</b>	<b>Timing</b>	<b>Payment (%)</b>
<b>Inception report</b> outlining the consultant’s detailed understanding of the problem/study, methodology to be applied, likely outcomes including the proposed table of contents for the final report, and any preliminary findings.	<b>Two (2) weeks</b> after the first field visit and no later than that four weeks after the	10% of Contract Sum

<b>Deliverable</b>	<b>Timing</b>	<b>Payment (%)</b>
	commencement of the assignment.	
<b>First consultation workshop</b> to discuss the inception report with the DBG Working Group.	<b>Two (2) weeks</b> after the submission of the inception report.	10% of Contract Sum
<b>Phase 1 draft report</b> , outlining the feasibility and business case for of the PCG facility.	<b>Eight (8) weeks</b> after the endorsement of the inception report.	35% of Contract Sum
<b>Second consultation workshop</b> with the DBG Working Group to discuss the Phase 1 draft report.	<b>Two (2) weeks</b> after the submission of the Phase 1 draft report.	
<b>Draft business case and business plan</b> for the PCG Facility, incorporating comments/guidance of the DBG Working Group received during the second workshop.	<b>Four (4) weeks</b> after the second Workshop with the Working Group/Advisory Council.	
<b>Financial model and assumptions</b> in excel format		
<b>Final consultation workshop</b> with the DBG Working Group to business case and business plan.	<b>Two (2) weeks</b> after the submission of the draft blueprint.	35% of Contract Sum
<b>Final business case and business plan for the PCG Facility</b> , incorporating guidance from the Working Group/Advisory Council received during the final workshop.	<b>Four (4) weeks</b> after the final workshop with the Working Group/Advisory Council.	
<b>Draft PCG facility Operations Manual</b>	<b>Four (4) weeks</b> after the delivery of the final business case and business plan	
<b>Revised draft PCG facility Operations Manual</b>	<b>Six (6) weeks</b> after the draft PCG facility Operations Manual	20% of Contract Sum

## 5. Reporting, Location and duration of the assignment

The Consultant will report directly to the Project Director, Head of Financial Sector Division of the Ministry of Finance.

The Consultant is expected to complete the assignment in nine (9) months. The assignment will be undertaken in Accra, but there will be flexibility if travel restrictions are in place due to COVID-19. The timing and scope for each field visit will be determined in consultation with the Ministry of Finance. Travel outside Accra, if any, shall be authorized by the Ministry of Finance and travel expenses will be reimbursed.

## **6. Facilities to be provided by the client**

The Ministry of Finance will provide administrative support and all relevant documents to the Consultant.

## **7. Required qualifications and team composition**

The assignment will be delivered by a firm with the following qualifications:

- Minimum of 10 years of experience in the provision of consulting services on access to finance or on the establishment and/or restructuring of development finance institutions;
- Track record in the design or management of credit guarantee schemes;
- Demonstrated international experience, including in Africa or in emerging economies.

The Team should include the following key experts:

### **Credit Guarantee Expert and Team Leader**

- Degree in economics, finance, business administration, or other relevant discipline;
- Minimum of 10 years of financial sector experience, particularly in SME lending, credit analysis, and credit guarantees;
- Track record in the design or management of PCG schemes, preferably with familiarity of operations of at least one successful public-sponsored PCG facility;
- Knowledge of PCG facilities' organizational structure and governance;
- Experience in delivering policy advice on development finance and leading complex assignments, preferably in Africa or in emerging economies;
- Fluent in English (written and spoken).

### **Finance Expert**

- Degree in economics, finance, business administration, or other relevant discipline;
- Minimum of 8 years of financial sector experience, particularly in credit analysis, financial modelling, demand projections, or management accounting;
- Experience with credit guarantee operations, including guarantee assignment approach, appraisal, pricing, and claims management;
- Knowledge of credit risk management techniques applicable to banks and PCG facilities;
- Fluent in English (written and spoken).

### **PCG operations expert**

- Degree in economics, finance, business administration, IT, or other relevant discipline;
- Minimum of 8 years of professional experience, preferably in the financial sector;
- Demonstrated knowledge of technology solutions used to automate PCG's operations/workflow in support of guarantee origination, risk management, and monitoring and reporting;

- Familiarity with emerging innovations leveraging alternative data to assess risk;
- Fluent in English (written and spoken).

### **Legal Expert**

- Degree in law;
- Minimum of 10 years of experience in commercial law and financial sector regulation in Ghana;
- Knowledge of financial legislation applicable to credit guarantees;
- Proven capacity to deliver practical solutions to identified challenges;
- Fluency in English (written and spoken).