



REPUBLIC OF KENYA

NATIONAL TREASURY & ECONOMIC PLANNING

SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY
(SAFER)

PROJECT IMPLEMENTATION UNIT

COMPONENT 3: TECHNICAL ASSISTANCE AND PROJECT
MANAGEMENT

BENEFICIARY – KENYA DEVELOPMENT CORPORATION (KDC)

TERMS OF REFERENCE

CONSULTANCY TO SUPPORT APEX INSTITUTION WHOLESALE
LENDING TO PARTICIPATING FINANCIAL INSTITUTIONS (PFIs)

May 2024

1. INTRODUCTION

1.1 Project

Supporting Access to Finance and Enterprise Recovery (SAFER) project development objective is to increase access to financial services and support COVID-19 recovery of Micro, Small, and Medium Enterprises (MSMEs) in Kenya.

SAFER is a five-year \$100 million IDA Credit that became effective in May 2022 that seeks to address market failures in access to finance by MSMEs that have been exacerbated by the negative impact of the COVID-19 pandemic.

1.2 Project Components

The SAFER Project comprises 3 components (with sub-components) as listed below:

- a) Component 1 – Innovation and Liquidity support to MSMEs
 - (i) Sub-Component 1.1: Liquidity support to microenterprises through digital channels
 - (ii) Sub-Component 1.2: Liquidity support to MSMEs through SACCOs and Micro Finance Banks (MFBs)
- b) Component 2 – De-risking lending to MSMEs
 - (i) Sub-Component 2.1: De-risking through support to the Partial Credit Guarantee Scheme (CGS) and company (CGC)
- c) Component 3 – Technical Assistance and Project Management
 - (i) Sub-Component 3.1: TA to the National Treasury to set up the Credit Guarantee Company (CGC)
 - (ii) Sub-Component 3.2: TA to Participating Financial Institutions (PFIs)
 - (iii) Sub-Component 3.3: TA to financial sector regulators
 - (iv) Sub-Component 3.4: Project Management

Component 3 of the SAFER focuses on providing technical assistance to build the resilient capacity of the MSME finance ecosystem beyond the lifecycle of SAFER.

These Terms of Reference are for consultancy required to provide support for the SAFER APEX institutions with the assessment and evaluation of Participating Financial Institutions (PFIs), to assist in managing the on-lending of the PIE's borrowing from SAFER, and ensuring compliance with the NT's criteria as laid out in their respective Subsidiary Loan Agreements (SLAs), and the PIE's lending policies and procedures.

1.3 Overview

The Kenya Development Corporation (KDC) has been identified as a Participating Implementing Entity (PIE) or APEX Institution to implement Component 1, Window 2 of the SAFER Project on behalf of the Government pursuant to the terms and conditions set out in the Financing Agreement between the Government of Kenya (GOK) and the International Development Association (IDA).

KDC was selected in line with criteria established by GOK and IDA as an APEX PIE i.e. financial intermediary to receive funding from GOK and on-lend wholesale to qualifying Participating Financial Institutions (PFIs - SACCOs and MFBs) for eventual provision of lines of credit to eligible MSMEs.

The KDC is a Development Finance Institution (DFI), and as an APEX entity, shall borrow part of the Credit proceeds from the National Treasury and on-lend them to PFIs wholesale. The PFIs will be required to meet eligibility criteria encompassing regulatory compliance, corporate governance, financial soundness, operational capacity, and outreach. The assessment of eligibility of PFIs by the APEX institution will involve a holistic assessment of the institutions to credibly serve viable underfunded MSMEs and capacity to: (a) develop, design, and launch new products, including scaling up existing products targeting informal sector MSMEs in the face of the COVID-19 pandemic; (b) market and execute promotional campaigns to build awareness of new products and offerings, including, for example, information or incentives for MSMEs to focus on business model adaptations in the COVID-19 pandemic and other crisis include climate change adaptation; (c) connect with specific informal sector MSMEs through use of digital platforms to sell specific products and offerings responding to COVID-19; (d) onboard MSMEs and set up accounts and products, managing relationships and potentially expanding services over time; work across product families and MSME customer types; (f) manage assets and liabilities; and (g) effectively target MSME segments that are difficult to reach in the face of the COVID-19 pandemic, such as women and youth.

KDC has established a wholesale lending division to facilitate financial intermediation through SAFER. It remains fully accountable for funds received under the SAFER Credit and liable for their repayment. It is critical therefore that sound principles of lending are applied to PFIs to ensure performance of the loans, and ultimately servicing of the loan to the NT.

Component 3 of SAFER seeks to provide technical assistance to build resilience capacity of the MSME finance ecosystem beyond the lifecycle of SAFER.

Subcomponent 3a specifically provides technical support for PIEs and PFIs especially towards enhancement of capacity for assessment of creditworthiness of PFIs, and MSMEs, in line with sound lending principles.

KDC has requested for technical support from the project and these Terms of Reference are for the procurement of consultancy services to support and enhance its credit assessment capacity, for effective implementation of SAFER.

2 SERVICES TO BE RENDERED

2.1 Objectives

KDC is seeking a team of consultants, who will support the assessment and evaluation of the bankability of applicant PFIs, assist in managing the on-lending of the PIE's borrowing from SAFER, and ensuring compliance with the NT's criteria as laid out in their respective Subsidiary Loan Agreements (SLAs), and the PIE's lending policies and procedures.

The consultants will support KDC in the process of developing and strengthening capacity to undertake due diligence processes of applicant PFIs and develop methodologies for periodic reviews of financial and operational performance of selected PFIS, assist in managing the on-lending of the PIE's borrowing from SAFER, and ensuring establishment of reporting procedures, particularly with a view to establishing adequate (i) Monitoring and Evaluation approaches and capacity, (ii) Reporting capacity, and (iii) disseminating approaches for Lessons Learned and strengthening of staff capacities.

2.2 Scope of Work

Specific duties and responsibilities of the consultant shall include:

- a) Support the KDC in a detailed due diligence exercise of applications from PFIs for the SAFER Credit with a view to evaluate absorption capacity of PFIs, financial and operational capacity, through thorough financial data analysis, credit reports, assessment of the PFIs as a going concern, CAMELS rating compliance with regulatory requirements [SACCO Society Regulatory Authority (SASRA) for SACCOs and the Central Bank of Kenya (CBK) for Micro Finance Banks (MFBs)], and other relevant assessment;
- b) Support the KDC to review and process the loan award applications from PFIs ensuring accuracy and completeness of documentation;
- c) Develop and execute strategies for the SAFER project's Wholesale and Retail lending in line with Project Development Objectives;
- d) Support the KDC in analyzing loan applications, credit data and financial statements to determine the degree of risk involved in extending credit to SACCOs and MFBs;
- e) Supporting the KDC in monitoring the SAFER loan portfolio and ensuring compliance in line with the Lending Policy of the PIE, statutory and regulatory requirements;
- f) Support to the KDC with regard to the functions of supervising, monitoring and evaluating SAFER credit and advances portfolio performance and revenue generation in line with the project requirements;
- g) Developing M&E plans together with the KDC that identify key performance indicators (KPIs) and data collection methods, analysis, for performance monitoring and evaluating the SAFER project;
- h) Continuously build capacity within the APEX entities to ensure knowledge transfer to internal teams handling wholesale lending;
- i) Collaborate with the APEX teams to ensure dissemination of the Credit proceeds to PFIs with a reach to MSMEs throughout the country, and to various sectors of the economy, maintaining sensitivity to gender and youth participation, for maximum impact of the project.
- j) Maintaining accurate and up-to-date records of loans award recommendations, loanee interactions, and relevant correspondence for M&E.

2.3 Key deliverables

- a) Appraisal / assessment reports of PFI applicants of SAFER Credit · appraisal of SACCOs, MFBs including review, shortlisting, and selection;
- b) Structured Due Diligence approach documented;
- c) Training of staff in Due Diligence.

2.4 Timeframe

The estimated duration for this assignment is twelve (12) months.

2.5 Reporting

The consultant will report to the KDC Director General and work closely with the NT's Project Implementation Unit.

3.0 QUALIFICATIONS & SKILLS

The ideal team of consultants should have a strong understanding of financial analysis, risk assessment, and excellent communication skills to interact effectively with PFIs, small businesses and internal teams.

The team of consultants should comprise at least, the following experts in the following competencies for effective implementation of the assignment:

- 1) Project Lead
- 2) Credit Analyst
- 3) Monitoring and Evaluation Expert

The team of consultants should demonstrate the following qualifications.

a) Project Lead Qualifications and Skills

- i. A minimum of eight (8) years' work experience at management level;
- ii. Bachelor's degree in Finance, Business, Commerce, Economics, Business Administration or in a related field from a recognized institution;
- iii. A Master's degree, and / or a professional qualification will be an added advantage;
- iv. Analytical skills: must be able to supervise analysis of financial data, credit reports, and other relevant information to assess the creditworthiness of financial institutions/corporate borrowers and identify potential risks.
- v. Financial modeling: must be able to create and examine financial models to evaluate borrower credit risk and analyze the potential impact of various loan terms and scenarios.
- vi. Experience in wholesale lending from the private sector.

b) M & E Expert Qualifications and Skills:

- i. Bachelor's degree in a relevant field, such as economics, statistics, social sciences, or development studies.
- ii. A master's degree is preferred.
- iii. At least five (5) years of experience in monitoring and evaluation of development programs and projects.
- iv. Demonstrated experience in developing and implementing M&E plans and tools.
- v. Strong data collection, analysis, and reporting skills.
- vi. Knowledge of qualitative and quantitative data collection methods and data analysis software.
- vii. Strong project management and organizational skills.
- viii. Experience in wholesale lending from the private sector.

c) Credit Analyst Qualifications and Skills:

- i. Bachelor's degree in finance, accounting, business administration, economics, or a related field.
- ii. A master's degree in finance or a related field is preferred.
- iii. Relevant professional certifications, such as the Chartered Financial Analyst (CFA) or Certified Credit Professional (CCP) will be an added advantage.
- iv. Analytical skills: Must be able to analyze financial data, credit reports, and other relevant information to assess the creditworthiness of institutional / corporate borrowers and identify potential risks.
- v. Financial modeling: Must be able to create financial models to evaluate borrower credit risk and analyze the potential impact of various loan terms and scenarios.
- vi. Knowledge of credit regulations and policies: Must be knowledgeable about lending regulations and policies, such as the Fair Credit Reporting Act (FCRA), to ensure compliance with regulatory / legal requirements.
- vii. Proficiency in financial software: Must be proficient in financial analysis software and other tools used to analyze financial data, such as Excel, Bloomberg or RiskCalc.
- viii. Experience in wholesale lending from the private sector.