

PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. The project preparatory technical assistance (TA) is needed to (i) reach a consensus among stakeholders¹ on a project to support small and medium-sized enterprises (SMEs) through the Credit Guarantee Fund of Mongolia (CGFM), (ii) bring in international best practices to design a roadmap to improve the operational capacity and governance structure of the CGFM, and (iii) carry out analyses in preparation for the report and recommendation of the President.

B. Major Outputs and Activities

2. The TA will perform a comprehensive sector analysis and capacity assessment of the CGFM including preparation of material for the ADB loan proposal. In particular, the TA will (i) perform due diligence and conduct a comprehensive sector review of SME financing and use of the credit guarantee system, economic and financial analysis, and technical and safeguards assessments; (ii) propose the project design and activities to be undertaken in the form of a draft RRP, including its modality, rationale, policy actions, structure, follow-on technical assistance, Project Administration Manual (PAM), and other loan implementing arrangements; and, (iii) perform capacity assessment and selective strengthening as needed of the CGFM.

3. **Output 1: Comprehensive sector analysis.** This output will include: (i) a comparative study of existing regional and international literature of SME credit guarantee systems; (ii) evaluation of the SME sector in Mongolia and its access to financial services and the credit guarantee system; (iii) a preliminary roadmap to enhance the effectiveness of the credit guarantee system in Mongolia; (iv) preliminary project design, safeguards and due diligence documentation and questionnaires, and supporting details for the loan modality chosen; and, (v) RRP and PAM.

4. The regional and international comparative study will identify best practices in operations and organization, business plans, marketing, governance, product design and pricing, staff development, and risk management of credit guarantee systems and SME financing. The study will include a detailed literature survey and research. The results will be used to support the proposed loan modality and financing plan.

5. The comprehensive domestic sector analysis will begin with a review of existing literature and may further include preparation of a survey in cooperation with the CGFM, and direct dialogue and outreach with SMEs and stakeholders. It will identify the impediments to broader use of credit guarantees under a public and private sector systems, and capacity to expand real sector impact by providing improved access to financing to SMEs especially outside the capital and in remote regions.

6. A detailed financing arrangement will be developed based on the study and analysis conducted and on industry and stakeholder consultations. It will identify possibilities for enhanced inclusion of women and the rural poor. It will include a design with detailed

¹ To include the CGFM, Ministry of Finance, Ministry of Economic Development, Banker's Association of Mongolia, SME Development Department of the Ministry of Labor, and the Mongolian National Chamber of Commerce and Industry, among others.

safeguards and due diligence² assessments. The proposed arrangement will consider the current planned activities of other donor agencies regarding sector improvements that support SME financing and the CGFM.

7. Output 2: Roadmap for improved implementing agency capacity and readiness.

This output will include (i) preparation of a diagnostic and analysis of the current business operations and governance of the CGFM; (ii) creation of a plan for enhancement of operations and recommendations for capacity building and institutional strengthening needed to support the proposed project; and, (iii) assessment of the legal and regulatory framework of credit guarantee system, including minimum regulatory requirements, risk management, transparency, etc.

8. The organizational and governance assessment and creation of a plan for operational improvements will consider: (i) credit guarantee strategy, marketing and business development plans; (ii) the scope of credit guarantee products; (iii) underwriting and credit risk evaluation processes and policies; (iv) pricing and fee structures; (v) risk management processes and standards including methodologies for portfolio management, handling default claims and risk mitigation; (vi) governance and internal control processes supporting impartial decision-making and sound management; (vii) staff skill development; (viii) management information system needs; and, (ix) programs for regular SME outreach and education.

9. Output 3: Facilitation of stakeholder collaboration on credit guarantees systems.

Stakeholder workshops will be held that also utilize regional counterparts from credit guarantee systems as expert resource persons to communicate best practices. These events will bring together CGFM staff and management, government, SMEs, relevant domestic civil society and non-government organizations, and other private sector stakeholders. The events will be used to exchange views, aid in designing the project and building consensus and support, establish and build on long-term relationships for cooperation and to promote credit guarantees as collateral alternatives. Additionally, the events will foster proper governance operations and transparency as the government is committed to greater accountability and transparency in public sector service delivery having joined the Open Governance Partnership³. As the CGFM has already initiated contact with the JICA and the Japan Finance Corporation, these institutions will be sought to cooperate with and solidify ongoing support to the credit guarantee system of Mongolia.

10. The major outputs and activities are summarized in Table A3.1.

Table A3.1: Summary of Major Outputs and Activities

Major Activities	Expected Completion Date	Major Outputs	Expected Completion Date
1. Inception meeting	March 2015	1. Inception report	April 2015
2. First stakeholder workshop	April 2015	2. Comparative analysis report	May 2015
3. SME Survey	May 2015	3. SME survey report	May 2015
4. Financial sector and	May 2015	4. Interim report on SME	May 2015

² To include technical, economic and financial, governance and institutional capacity, and poverty, social, and gender areas.

³ Under support of a USAID-funded Strengthening Transparency and Governance in Mongolia program and the Asia Foundation, in September 2013, the government of Mongolia signed a Good Governance and Corruption Prevention Plan 2013-14. Commitments under the Open Government Partnership reflect Mongolia’s aspiration to develop open and transparent government. The adoption of the Anti-Corruption Law and the Law on Information Transparency and the Right to Information in 2011, as well as accession to the UN Convention against Corruption in 2005 were important milestones on the way to joining the Open Government Partnership Initiative

regulatory consultations		sector and CGFM operations	
5. First SME outreach workshop	June 2015	5. Preliminary design specifications	June 2015
6. Second SME outreach workshop	July 2015	6. Safeguards and due diligence	June 2015
7. Second Stakeholder workshop	August 2015	7. Final report on SME sector and CGFM operations	September 2015
8. Final meeting	September 2015	8. RRP and PAM	September 2015
9. Project physical closure	October 2015		
10. Project financial closure	January 2016		

CGFM = Credit Guarantee Fund of Mongolia, RRP = Report and Recommendation of the President, SME = small and medium-sized enterprise, PAM = project administration manual.

Source: Asian Development Bank estimates.

C. Cost Estimate and Proposed Financing Arrangement

11. The TA is estimated to cost \$530,000, of which \$500,000 equivalent will be financed on a grant basis from ADB (Financial Sector Development Partnership Special Fund). The government will provide counterpart support in the form of counterpart staff, office facilities, office supplies, secretarial assistance, domestic transportation, communication facilities for consultants, as well as access to necessary data and relevant documents subject to proper confidentiality. The detailed cost estimate is presented in Table A3.2.

Table A3.2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
Financial Sector Development Partnership Special Fund^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (13 person-months)	270,000.0
ii. National consultants (16 person-months)	80,000.0
b. International and local travel	40,000.0
c. Reports and communications ^b	10,000.0
2. Workshops and meetings	
a. Workshops and meetings ^c	50,000.0
3. Survey ^d	5,000.0
4. Miscellaneous administration and support costs ^e	5,000.0
5. Contingencies	40,000.0
Total	500,000.0

^a Established by the Asian Development Bank. Financing partner: the Government of Luxembourg.

^b Includes translation of reports and interpretation during key meetings subject to prior approval from ADB.

^c Workshops, training, seminars held for CGFM staff and management, stakeholders and outreach to SMEs. Includes provision for honoraria and travel for resource persons, international and national expert speakers and interpretation and translations, subject to prior approval from the Asian Development Bank. Advances will be liquidated within 30 days.

^d Includes costs to prepare, compile, and distribute results completed in cooperation with the CGFM.

^e May include office operations and other support costs, and the cost of disseminating the final report.

Purpose	Venue
First stakeholder workshop	Ulaanbaatar
First SME workshop	Ulaanbaatar
Second SME workshop	Location in Mongolia to be determined
Second stakeholder workshop	Ulaanbaatar

Source: Asian Development Bank estimates.

D. Consulting Services

12. The TA will engage 5 international consultants for 13 person-months and 5 national consultants for 16 person-months total in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), and proceeds will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Consultants will be individually engaged. An Advance Payment Facility⁴ may be used for training and workshop administration by the implementing agency. The TA will be implemented over a period of 7 months and is expected to start in March 2015 and to be completed by the end of October 2015. The outline terms of reference for the TA consultants are described in paragraphs 13 to 22.

Table A3.3: Summary of Consulting Services Requirement

Positions	Person-Months Required
International	
Credit Guarantee Specialist/Team Leader	5.0
Legal Specialist for Credit Guarantee and SME Finance	2.0
SME Financial and Economic Specialist	2.0
Social Development Specialist	2.0
Environmental Safeguards Specialist	2.0
National	
Credit Guarantee Specialist	6.0
Legal Specialist for Credit Guarantee and SME Finance	3.0
SME Financial and Economic Specialist	2.0
Social Development Specialist	3.0
Environmental Safeguards Specialist	2.0

Source: Asian Development Bank estimates.

13. **Credit Guarantee Specialist/Team Leader (International, 5 person-months).** The consultant will have at least 10 years' experience in credit guarantee systems and experience dealing with SME finance in developing countries. Experience preparing ADB financial intermediation loans is desirable. The consultant will hold a minimum of a master's degree in finance, economics, law or a related field applicable to this position. The consultant will serve as the team leader to guide, coordinate, and supervise the inputs of each individual consultant in the team and take the responsibility for delivering all the outputs of the TA and managing stakeholder and SME workshops and meetings, and the survey.

14. **Legal Specialist for Credit Guarantee and SME Finance (International, 2 person-months).** The consultant will have at least 10 years' experience in legal issues related to SME financing, credit bureaus, credit guarantee systems, and experience dealing with SME finance in developing countries. The consultant will take responsibility for delivering all law related assessments of the TA. The consultant will hold a minimum of a master's degree in law.

15. **SME Financing Specialist (International, 2 person-months).** The consultant will have at least 10 years' experience in SME finance and experience in this field working in developing countries. The consultant will support the team leader in delivering all the outputs of the TA. The

⁴ Advances will be liquidated within 30 days

consultant will hold a minimum of a bachelor's degree in finance, economics, or a related field applicable to this position.

16. **Social Development Specialist (International, 2 person-months).** The consultant will have at least 10 years' experience in social development and design of programs for financial inclusion, gender expertise, and experience in mainstreaming gender in the financial sector having worked in this field in developing countries. The consultant will be responsible for designing project elements to make it socially inclusive. They will review and evaluate poverty, social and gender issues for the project and then formulate relevant design measures, monitoring indicators and guidance for project implementation. The consultant will hold a minimum of a bachelor's degree in an applied social science.

17. **Environmental Safeguards Specialist (International, 2 person-months).** The consultant will have at least 10 years' experience in environmental safeguards. The consultant will be responsible for due diligence related to possible environmental impacts and safeguards for potential eligible SME projects and for evaluating environmental safeguard management systems in potential eligible partner financial institutions. The consultant will coordinate his work with the social development specialist regarding social management systems in partner financial institutions. The consultant will hold a minimum of a bachelor's degree in an applied social science.

18. **Credit Guarantee Specialist (National, 6 person-months).** The consultant will have at least 5 years' experience in dealing with SME finance and credit guarantee systems. Experience internationally would be an advantage. The consultant will hold a minimum of a bachelor's degree in finance, economics, law or a related field applicable to this position.

19. **Legal Specialist for Credit Guarantee and SME Finance (National, 3 person-months).** The consultant will have at least 5 years' experience in legal issues related to SME financing. Experience internationally would be an advantage. The consultant will work with the international consultant to support delivery of all law related outputs of the TATA. The consultant will hold a minimum of a bachelor's degree in law or hold sufficient work experience applicable to the topic.

20. **SME Financing Specialist (National, 2 person-months).** The consultant will have at least 5 years' experience in SME finance. Experience internationally would be an advantage. The consultant will support the international consultant in delivering all the outputs of the TA. The consultant will hold a minimum of a bachelor's degree in finance, economics, or a related field applicable to this position.

21. **Social Development Specialist (National, 3 person-months).** The consultant will have at least 5 years' experience in social development and design of programs for financial inclusion. Experience internationally would be an advantage. The consultant will work with the international consultant in being responsible for designing project elements to make it socially inclusive and to promote mainstreaming gender in the financial sector. The consultant will hold a minimum of a bachelor's degree in an applied social science.

22. **Environmental Safeguards Specialist (National, 2 person-months).** The consultant will have at least 5 years' experience in environmental safeguards. Experience internationally would be an advantage. The consultant will work with the international consultant in being responsible for due diligence related to possible environmental impacts and safeguards for potential eligible SME projects and for evaluating environmental safeguard processes in

potential eligible partner financial institutions. The consultant will hold a minimum of a bachelor's degree in an applied social science.

E. Implementation Arrangements

23. The Ministry of Labor is anticipated to be the executing agency. CGFM will be the implementing agency. The government will provide adequate counterpart staff, office facilities, office supplies, secretarial assistance, domestic transportation and accommodation for counterpart staff, communication facilities for consultants, as well as access to necessary data and documents to support subject to proper confidentiality. The TA will be implemented over a period of 7 months, starting in March 2015 and concluding October 2015.

24. The proposed TA processing and implementation schedule is listed in Table A3.4.

Table A3.4: Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Initial Concept Paper Clearance	August 2014
Project Concept Paper Approval	December 2014
TA Commencement	March 2015
Loan Fact Finding	June 2015
Management Review Meeting	August 2015
Loan Negotiations	September 2015
Board Consideration	October 2015
TA Physical Completion	October 2015
TA Financial Closure	January 2016
Loan Effectiveness	April 2016

TA = technical assistance.

Source: Asian Development Bank estimates.