TERMS OF REFERENCE

Project Title: Promoting Energy Conservation in Small and Medium Enterprises in Vietnam (PECSME)
Functional Title: Local consultant for LGF Risk Assessment and Loans Rating Study
Duration: Estimated 40 work days starting in July 30, 2009
Country of Assignment: Vietnam

1) GENERAL BACKGROUND

PECSME achieved its goals of curbing the annual growth rate of GHG emissions by addressing the technical capacity weaknesses and by improving the industrial process components in five selected SME sectors (i) Brick-Making; (ii) Ceramic; (iii) Textile; (iv) Food-processing, and (v) Pulp & Paper. In addition to technical support to small and medium-scale enterprises and Energy Service Providers (EESP), the PECSME includes a set of activities with the aim of proceeding to sustainable Energy Conservation (EC) market transformation and speeding up the investment process in priority industrial sectors.

Loan Guarantee Fund

In early 2006, the Project Management Unit (PMU) outlined the Procedures and Regulation Framework of the Loan Guarantee Fund (LGF). The UNDP-GEF granted the PECSME Project with a fund of USD1,950,000 for LGF capital which has been readjusted to USD1,700,000 at the end of 2008.

In accordance with the planning, by the end of the project timeframe (2010), 100% of the LGF must be committed for providing loan guarantee to EC projects. The LGF provides a guarantee up to 100% of loans in accordance with the commercial banks regulation in Vietnam.

The LGF supported 26 projects from 2006 to mid 2009. The average investment per project is 1.5 billion VND and the average guarantee is 580 million VND; the shortest is 1 year and the longest 4 years.

The Vietinbank has been selected in 2005 for managing the LGF. The Vietinbank is allowed to provide a guarantee to its own branches through the LGF, but it is up to SME to borrow from another bank and getting a guarantee through the LGF.

For additional information related to PECSME, have a look at the program’s web site: www.ecsme.com.vn.

2) PROBLEM STATEMENT AND OBJECTIVES OF THE ASSIGNMENT

The LGF is planned to conclude its current activity on December 31, 2010. For the time being the LGF did not face any bad debt, which is hopefully an indicator that the risk has been
appropriately managed up to now. But the PMU and UNDP are concerned about the future. In fact, loans supported by the LGF are still recent and because of the actual economic context, the solvency of some borrowers can change in the upcoming months. In addition, the PMU is currently considering a phasing out LGF strategy, including some options for going on with a new version of the LGF for the period after 2010. The point is to know if the current loans, supported by the LGF and some others to be supported in the near upcoming months will comply with expectations in regards to reimbursement schedule and conditions. The PMU needs to get a clear picture, based on a comprehensive risk assessment, of the loans reimbursement stream from beginning 2010 up to the last loan full reimbursement. The LGF replenish stream is a basic requirement for planning new activities after 2010: the PMU needs to know how much money will be available in accordance with the reimbursement stream and the likely risks.

The PECSME is scheduled to complete its activities in October 2010. About one year and half before the project completion, the PMU is concerned about the LGF commitment pace and would like, in the extent of possible, to speed up the approval procedure without significantly increasing the risk exposure.

In accordance with the contractual agreement, the Vietinbank is required to make the decision in regards to LGF commitments. The PMU intends to carry out an independent evaluation of loan risk assessment methodology the Vietinbank’s branches are currently using, and to provide the PMU with an independent risk rating in regards to loans having got the financial support from the LGF.

The Consultant is required to fulfill the assignment in 5 major activities as follows:

(i) Outline the methodology /approach and work plan.
(ii) Review the current risk assessment Vietinbank’s methodology and approval delay.
(iii) Proceed to data collection, interviews and site visits.
(iv) Prepare the draft report and deliver a half-day training to the PMU.
(v) Prepare the final report by taking into consideration some comments from the PMU and Vietinbank.

3) SCOPE OF WORK

General Duties

The Consultant is asked to have a critical look at the way Vietinbank’s branches have implemented an appropriate loan risk assessment procedure in the particular context of SMEs such as:

- Assess the risk evaluation procedure and methodology the Vietinbank whereby the bank makes the decision in regards to loans and LGF support.
- To what extent are the procedure and risk evaluation criteria appropriate (too strict or too loose) in regards to small and medium-scale enterprises included in the priority industrial sectors?
- Is the risk assessment methodology in accordance with some standards widely accepted by the banking sector?
- Proceed with a loan-based financial risk assessment of LGF projects (The LGF Risk Assessment and Loans Rating Study is a major input for outlining the LGF Exit Strategy to be implemented after the current project timeframe, that is to say after 2010).
Specific Duties

- To rank and analyze the risk (financial risk only) of all guaranteed loans, provide the rational and methodology (loan-based) and point out current and upcoming deviation or risk degradation regarding loan reimbursement schedule.
- Describe risk analysis section and rational in regards to criteria and methodology including a loan-based risk-rating table preferably formatted as an xls spreadsheet.
- Provide guidance and guidelines to the PMU and the bank with the aim of:
  - Shortening LGF approval delays without increasing the credit risk exposure in the future.
  - Recommending measures for risk mitigation/avoidance in regards to current LG commitments from now up to 201x.
  - Proposing measures/actions to manage and mitigate the risk in the future, in the event of a new LGF version after 2010.
  - Outlining a workable risk sharing mechanism applicable after 2010, between investors, banks and LGF entity to ensure the LGF sustainability and continuity.
  - Outlining the methodology and rational to use the loans risk-rating (loan-based) in evaluating the reimbursement stream from 2010 up to 201x.
- Provide the PMU with a half-day training related to loan risk analysis, and loan-rating methodology and guidelines.

4) DURATION OF ASSIGNMENT, DUTY STATION AND EXPECTED PLACES OF TRAVEL

- The total assignment has been estimated to 40 working days within the period starting on July up to September 2009.
- Duty station: Hanoi and project sites

5) FINAL PRODUCTS***

- Prepare the Inception Report one week after the kick-off meeting: Methodology and evaluation calendar (site visits and reporting), list and description of deliverables, draft table of contents of reports.
- Comprehensive Draft Report 6 weeks after the kick-off meeting
- Final Report 2 weeks upon reception of comments.
- Half-day training delivery related to risk assessment methodology, rating and mitigating.
- Completion report

6) METHODOLOGY BASIC REQUIREMENTS

The Consultant is responsible to outline the appropriate methodology for successfully fulfilling the assignment.

In essence the Consultant is required to fulfill the assignment in 5 major activities as follows:
i. Outline the methodology /approach and work plan.
ii. Review the current risk assessment Vietinbank’s methodology and approval delay.
iii. Proceed to data collection, interviews and site visits.
iv. Prepare the draft report and deliver a half-day training to the PMU.
v. Prepare the final report by taking into consideration some comments from the PMU and Vietinbank.

The consultant is required to hold some meetings with the following key stakeholders:
- The Vietinbank credit officers at the bank Head Quarter and the bank branches where they issued the LGF-EC projects guarantee.
- All SME managers (site visit) having benefited from the LGF support.
- EESP having implemented the LGF EC projects with the purpose of reviewing the risk than can result from equipment energy efficiency degradation with the passing of time or because of a bad use of equipment.

7) DEGREE OF EXPERTISE AND QUALIFICATIONS

The selected Consultant must be an individual meeting the following criteria:

- University degree in finance/economics or related issues;
- Recognized experience in the field of credit rating in the field of SME and the banking sector;
- Work experience in relevant areas for at least 5 years;
- Conceptual thinking and analytical skills;
- Computer literacy;

8) ADMIN SUPPORT AND REFERENCE DOCUMENTS

Note that the PMU will provide the needed introduction letter and guidelines for holding these meetings. Prior starting up the field work, the Consultant must have got the PMU’s approval in regards to Inception Report.

In fulfilling the assignment, the Consultant will work closely with the LGF coordinator, the National Senior Technical Advisor and the International Senior Technical Advisor. The Consultant will be fully supported by documents and data the PMU and the Vietinbank.