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TERMS OF REFERENCE

CREDIT SCORING DEVELOPMENT

MICROFINANCE INSTITUTION, BOSNIA & HERZEGOVINA

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1 BACKGROUND

The Microfinance Institution (MFI) is a medium size microfinance institution in Bosnia & Herzegovina. It has a clearly defined target group focusing on low-income entrepreneurs and micro and small businesses that are not primarily targeted by commercial banks, especially in urban and semi-urban areas in the country.

In view of the competitive environment and to pursue digital transformation the MFI is working on the improvement of its operational efficiency and plans to integrate the credit scoring model to shorten the loan approval process and reduce operational costs through the application of the new credit technology.

Against this background, the EFSE Development Facility will support the development of a credit scoring model through the assignment of a Consultant to perform the below scope of work.

2 PURPOSE OF THE ASSIGNMENT

The overall objective of the project is to support the MFI and specifically its Risk Department in implementing the credit scoring model that will allow the Institution to respond flexibly to client demand and to reduce operational processes and costs – with the ultimate objective to increase the number of clients particularly in rural areas.

3 SCOPE OF WORK

The project will be implemented by the Consultant in two phases:

Phase 1: Review and assessment of lending processes

The following activities are envisaged:

- Conduct the review of the existing policies, processes and tools and assess them against best practice standards.
- Assess the historical loan data available.
- Suggest the type of credit scoring models (e.g. statistical, qualitative or hybrid), which is the most suitable for the MFI;
- Develop a roadmap for the successful amendments of the lending processes.

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- Prepare the findings and recommendations to be presented and discussed with MFI's management and core staff in a dedicated workshop: the recommendations will summarize the changes and improvements needed for the newly adjusted policies, procedures and processes; lending products attributes; actual approval process, authorities and responsibilities.

Phase 2: Review and analytical development of data sources for scoring models' infrastructure

The following activities are envisaged:

- Develop appropriate policies, procedures and tools to automate the loan approval process.
- Develop scorecards for different loan purpose i.e. business loans, agriculture loans, general purpose loans, with clear description of every parameter, indicator, formula calculation;
- Provide hands-on support in the implementation, integration and testing of the new scoring model.
- Provide dedicated trainings on the new scoring model and its application for at least 15 MFI's staff in the form of Train of Trainers (ToT) sessions.

During the second phase, the Consultant will ensure that the new scoring model is integrated within the MFI's core system.

Once the system is integrated, the Consultant will be responsible for piloting the new product – the scorecards as well as new processes – in 4 branches of the MFI. The findings from the piloting will help to further adjust and improve the system.

4 DELIVERABLES

The MFI will be the coordinating institution, while the Consultant will closely cooperate with the MFI's responsible team as required. The Consultant will report to the MFI and the EFSE DF Project Manager on all aspects of the assignment on a regular basis, while the MFI will provide necessary support to the Consultant.

- Assessment report with findings and recommendations for an appropriate scoring model.
- Roadmap for streamlined lending processes.
- Workshop to discuss the findings, recommendations and roadmap.
- Concept for the new credit scoring models.
- Description of the credit scoring methodology and underlying processes.
- ToT session for MFI staff
- Final report including results monitoring indicators based on the reporting and monitoring templates developed in the project and provided by the EFSE DF.

5 IMPLEMENTATION AND TIMELINE

It is expected that the project will start in December 2021 and last approximately 6 months.