



Technical Assistance Report

Project Number: 46159-001
Capacity Development Technical Assistance (CDTA)
October 2013

People's Republic of China: Innovations in Credit Risk Management and Financial Service Capabilities for Rural Commercial Banks in Tianjin Municipality

CURRENCY EQUIVALENTS

(as of 22 October 2013)

Currency unit	–	yuan (CNY)
CNY 6.0929	=	\$1.00
CNY 1.00	=	\$0.1641

ABBREVIATIONS

ADB	–	Asian Development Bank
CBRC	–	China Banking Regulatory Commission
DMF	–	design and monitoring framework
IT	–	information technology
PRC	–	People's Republic of China
RCB	–	rural commercial bank
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TRCB	–	Tianjin Rural Commercial Bank
TFB	–	Tianjin Finance Bureau

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting classification	–	General intervention
Sector (subsector)	–	Public sector management (economic and public affairs management)
Themes (subtheme)	–	Governance (public administration [national, decentralized, and regional]); economic growth (promoting economic efficiency and enabling business environment)
Location (impact)	–	urban (high), national (high)

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. In December 2012, during the country program consultation, the Government of the People's Republic of China (PRC) requested the Asian Development Bank (ADB) to provide technical assistance (TA) for Innovations in Credit Risk Management and Financial Service Capabilities for Rural Commercial Banks in Tianjin Municipality.¹ Following a reconnaissance mission in March 2013 and a fact-finding mission in September 2013, ADB and the government reached an understanding on the objectives, scope, implementation arrangement, costs, and terms of reference for the TA. The design and monitoring framework (DMF) is in Appendix 1.²

II. ISSUES

2. The reform of rural credit cooperatives to rural commercial banks (RCBs) started in mid-2003 with the establishment of the first RCB, Wujiang Rural Commercial Bank Co. Ltd. in Jiangsu Province. After rapid expansion, 85 RCBs were operating in the PRC as of end-2010, with assets totaling CNY 2.77 trillion representing 6.9% of gross domestic product.

3. RCBs have changed their focus from being driven by policy to a commercial, market-based business. Yet financial sector development in rural areas in the PRC continues to lag behind that of urban areas. Rural financial institutions have limited financial services for the rural population, and RCBs have often adopted conservative approaches to lending. This is due in part to their new commercial focus, the fact that often a majority of RCBs' capital is owned by corporations, and the RCBs' negative historical experience with high nonperforming loans. Additionally, RCBs have shifted their strategic focus away from their roots in rural areas to perceived greater opportunities in urban areas, where they believe they have greater lending capability as their poor historical loan loss experience has led them to believe that rural lending is riskier. Requirements to provide collateral as credit risk mitigation have also impaired rural financial access, as often this sector lacks assets for pledging.

4. Lending in rural areas therefore remains inadequate to effectively support financial inclusion that can help create rising incomes and achieve wealth equality with urban areas. RCBs' strategic shift toward becoming urban-based businesses hampers the expansion and institutionalization of rural finance knowledge. Across much of the PRC, rural areas are poorer than most urban areas. The socioeconomic landscape in rural areas in Tianjin is changing rapidly with the combination of emigration of rural residents and farmers to urban areas and the move to create larger industrial farms and farming cooperative ventures. However, the rural population of Tianjin involved in agriculture remains at approximately 40% of Tianjin's total population. Additionally, farmers and rural residents are not just seen as being agricultural producers, but they are also increasingly seen as investors in manufacturing and processing businesses, as providers of services, and as developing broader consumer spending and investment habits. The shift has contributed to the per capita gross domestic product of Tianjin being the highest in the PRC at \$13,392.³ These changes draw attention to the fact that financial services in rural areas need to become more sophisticated and offer a greater product range. These changes also require that RCBs create sound overall rural finance strategies to guide their business activities.

¹ The TA is included in ADB. 2013. *Country Operations Business Plan: People's Republic of China, 2013–2015*. Manila.

² The TA first appeared in the business opportunities section of ADB's website on 14 October 2013.

³ Source: National Bureau of Statistics online database December 2011.

5. Tianjin Rural Commercial Bank (TRCB) was formed from the merger of Tianjin Rural Cooperative Bank and nine rural county and district credit cooperatives in 2010, with a registered capital of CNY 7.0 billion. TRCB had a net capital of CNY 11.7 billion at the end of 2012. It has 5,400 shareholders, of whom 4,598 farmers and staff that owned shares in the original 10 institutions took new shares in TRCB. However, farmers and staff own only 23.2% of the total shares in aggregate, with the remaining shares owned by large corporations. At end-2010, TRCB had a capital adequacy ratio of 11.2% and a nonperforming loan ratio of 2.09%.

6. The Tianjin Finance Bureau (TFB) provided additional capital to TRCB during its establishment and agreed to cover any future write-offs from the assets transferred from the nine rural credit cooperatives during the merger. The TFB serves as the administrator for RCBs in Tianjin in cooperation with the local branch of the China Banking Regulatory Commission (CBRC). TRCB is responsible for managing new nonperforming loans that have surfaced after its establishment.

7. However, weak credit risk appraisal systems, undeveloped rural finance risk management and control practices, and a lack of innovative rural finance products are major challenges to TRCB and other rural-based financial institutions across the PRC. Necessary credit risk management improvements will include well-designed borrower screening and underwriting processes, proper loan structuring and pricing capabilities, centralized monitoring mechanisms, effective collection procedures, and capability for active oversight of operations.

8. These credit risk management enhancements will require proper data management and support systems. TRCB and other RCBs across the PRC lack rigorous information technology (IT) systems and environments to support proper risk management, product distribution, and client and customer needs' intelligence. Gaps in IT and the operational oversight environment are of special concern to remote rural branches. Enhancement of operational oversight processes and the IT system support environment are needed to allow for expanded credit risk management processes.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The impact will be improved growth prospects for rural areas providing for expanded development opportunities. The outcome will be increased access by rural residents and rural small businesses in Tianjin to finance through expanded offerings of financial products and services. Performance will be measured by presentation to the TFB of a benchmark rural credit risk appraisal and management system and a rural financial product strategy by TRCB, and by sharing the system with other finance bureaus and RCBs in the PRC.

B. Methodology and Key Activities

10. ADB has employed the theme of financial inclusion to support rural sector development and microfinance. Recent projects include Rural Finance Development and Supervision, Rural Finance Innovation and Rural and Agriculture Financial Statistical System Development, and Capacity Development of Partner Banks in Microfinance Wholesale Lending.⁴

⁴ ADB. 2008. *Technical Assistance to the People's Republic of China for Rural Finance Development and Supervision*. Manila; ADB. 2009. *Technical Assistance to the People's Republic of China for Rural Finance Innovation and Rural and Agriculture Financial Statistical System Development*. Manila; ADB. 2010. *Technical Assistance to the People's Republic of China for Capacity Development of Partner Banks in Microfinance Wholesale Lending*. Manila.

11. This TA will assess TRCB's rural credit processes, risk management and control processes, rural business strategy, and financial product offerings, in line with international best practices. Subsequently, an enhanced system for TRCB will be prepared to promote a commercially sustainable rural finance business process that specifically incorporates the risks and product needs of rural households and small and medium-sized enterprise (SME) clients. An enhanced system will support an effective credit appraisal and risk management system for select clients; properly price, underwrite, and structure loans; and manage the resulting credit risks. Only lending that is generated from a sound system and under a strong credit risk management process can be conducive to the formation of a long-term dynamic relationship between risk and return and the needs of the rural communities.

12. The TA will support an assessment of IT system needs and preparation of a project plan related to the data needs for rural credit risk and risk management, including product development that will also fully integrate remote rural branches. The TA will also help TRCB establish an overall rural finance business strategy to promote rural lending and expand product offerings. An institutionalization mechanism will be in place to accumulate rural finance knowledge, support ongoing staff training programs in TRCB, and ultimately disseminate lessons learned to other RCBs in Tianjin and across the PRC.

13. The overall result will be expressed in a knowledge product for the enhancement of rural credit risk management, operational oversight, risk controls, and development of rural business strategy and products. The knowledge product and results will be shared with other RCBs in Tianjin via the closing workshop in cooperation with the TFB and the local branch of the CBRC. The knowledge product will also be shared with other municipal finance bureaus and RCBs through publication with the support of the TFB and CBRC.

14. The TA is closely aligned with ADB's Strategy 2020, which identifies finance as one of ADB's core areas of operations.⁵ The TA is also aligned with ADB's country partnership strategy, 2011–2015, for the PRC, which emphasizes inclusive growth, particularly through improved access to microfinance and SME finance.⁶ Rebalancing urban and rural growth is another key focus of the ADB–PRC partnership, and will be facilitated by the improvement in rural finance and access to credit services, particularly by the rural poor.

15. The first output will be an assessment of TRCB's rural credit processes against international best practices and preparation of a new system and an alternative strategy regarding rural credits and financial products.

16. The TA will begin with an assessment of current global best practices for rural credit risk appraisal and risk management systems to compile relevant and useful lessons for rural microfinance and SME credits and financial products. This will involve research on the existing risk appraisal, underwriting, risk management, and control processes prevailing in advanced rural financial institutions globally, including a study tour to relevant rural banks in ADB members to review practices first-hand.

17. Activities under this output will include: (i) identifying and analyzing the key elements that have hampered the expansion of credit and financial products in rural areas; (ii) assessing overall rural finance business strategy and compiling relevant financial product offerings; (iii) analyzing business processes related to rural financial product operations through interviews

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008-2020*. Manila.

⁶ ADB. 2012. *Country Partnership Strategy: People's Republic of China, 2011–2015*. Manila.

and field visits; and (iv) preparing detailed descriptions of sound rural credit procedures, risk appraisal, and management practices.

18. The study tour will cover sophisticated rural-based banks in ADB members that have rural populations with broad and advanced financial needs. The study tour will include a visit to a developed member country within Asia and also to Canada or the United States. The scope of the study tour will not only cover advanced risk management practices, but will also assess strategic development plans and the range of financial products offered. The activity and development of the community bank markets in Canada and the United States are among the most advanced globally. These community bank markets are vital in serving the rural sectors in these countries and have developed more refined modes of operation against larger competitors. A visit to one of these markets is a key to expanding knowledge needed for the growing sophistication of the population of rural areas of the PRC.

19. Detailed reports and specific process work plans will be produced that are needed to establish a sound rural credit risk appraisal and rural finance risk management system, and new detailed process maps, procedures, product descriptions, and their marketing strategies will also be prepared. The new processes, risk management system, and strategy will be presented to the board of TRCB for approval and submitted to the TFB for confirmation.

20. The second output will be the design and development of a data management and IT system plan and rollout schedule to support rural residents and SME credits and rural financial products. This output will use TRCB as a benchmark and will involve a detailed assessment of TRCB's existing database systems and IT arrangements that can support rural areas to determine the changes needed and the estimated costs for implementing proposed changes. Plans proposed will ensure easy access and processing since the expanded system must also be used in remote rural branches.

21. The final output will be the institutionalization and dissemination of an effective rural credit risk appraisal, financial product strategy, and risk management system within TRCB and to RCBs in Tianjin. This output will lead to improved capacity for risk management of rural finance across RCBs in Tianjin and other provinces and municipalities in the PRC through dissemination of a knowledge product.

22. Activities under this output will include designing training materials on rural financial products, rural credit risk appraisal, and client risk profiling. These materials will be used by TRCB as part of their ongoing staff training and also at workshops financed by the TA. Workshops will be planned so that the results of the TA will be shared among other RCBs in Tianjin and with other key stakeholders in rural finance in the PRC. The project team consultants, along with TRCB, the TFB, and the local branch of the CBRC, will identify and confirm participation of key stakeholders in rural microfinance for inclusion in the training sessions and the final workshop. A knowledge product on best practices will be prepared concerning rural microfinance sector issues and concerns that have hampered expansion of rural area credit and products. It will also incorporate an outline for rural credit risk management and financial strategy improvement. The knowledge product will be disseminated across other municipal finance bureaus and made available to all RCBs in the PRC.

C. Cost and Financing

23. The TA is estimated to cost \$450,000, of which \$400,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff and management time, office space, full access to all materials, and other in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

24. The TFB will be the executing agency, and the TRCB will be the implementing agency.

25. The TA will be implemented from 15 November 2013 to 31 March 2015. The TA will engage one international consultant for a total of 5 person-months and two national consultants for a total of 9 person-months. A software firm with a 5 person-month equivalent will be recruited under consultant qualification selection (lump sum) to assess and provide software and hardware evaluation and upgrade plan for the rural sector to enable completion of the data requirements for the risk management system and improved overall data management.

26. ADB will engage the international and national consultants, as well as any resource person, in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The outline terms of reference for consultants is in Appendix 3. An advance payment facility will be used for training, seminar, and conference administration by the executing agency.

27. The implementing agency will supervise the day-to-day work of the consultants and take overall responsibility for training programs, seminars, workshops, and international study tours. The TA will be monitored and evaluated based on the implementation of activities and satisfactory delivery of outputs following the agreed timeline and budget.

28. To support monitoring and evaluation, consultants will be required to provide (i) an inception report within 2 weeks of commencement of work defining a detailed work plan and milestones consistent with the DMF; (ii) deliverables consistent with the DMF activities, outputs, and delivery dates; and (iii) other papers and submissions required by the TRCB for submission to the TFB and CBRC. The main mechanism to monitor and assess the TA will be review missions.

29. The TA is based on the assumptions of (i) good coordination between ADB, the TFB, CBRC, and TRCB; (ii) the TFB and CBRC's support and commitment; (iii) the TRCB's continuing commitment to expand their rural credit operations; and (iv) the TRCB's commitment to share the result of the TA with other RCBs.

IV. THE PRESIDENT'S DECISION

30. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis to the Government of the People's Republic of China for Innovations in Credit Risk Management and Financial Service Capabilities for Rural Commercial Banks in Tianjin Municipality, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved growth prospects for rural areas providing for expanded development opportunities.</p>	<p>Establishment of a benchmark rural credit risk appraisal and management system and rural financial products strategy (by 2018)</p> <p>Results are shared with other RCBs (by 2018)</p>	<p>TRCB reports to TFB</p> <p>Publication and distribution of a knowledge product</p> <p>Summary reports from training and final workshops</p>	<p>Assumption TRCB's continuous commitment to expand its rural credit operations</p> <p>Risk Adverse policy changes of CBRC to limit credit expansion in rural areas</p>
<p>Outcome Increased access by rural residents and rural small businesses in Tianjin to finance through expanded offerings of financial products and services.</p>	<p>TRCB's lending to rural SMEs and residents increases by 10% (by 2016)</p>	<p>People's Bank of China, Tianjin Branch; CBRC; TFB; TRCB</p> <p>TRCB reports to People's Bank of China, Tianjin Branch and to CBRC</p>	<p>Assumption Results of the project will be shared among other RCBs and adopted</p> <p>Risk Adverse change in the rural economic environment</p>
<p>Outputs</p> <p>1. An assessment of TRCB's rural credit processes against international best practices and preparation of a new system and an alternative strategy regarding rural credits and financial products.</p>	<p>Summary report prepared on international best practices with key case studies (February 2014)</p> <p>Study tour completed (March 2014)</p> <p>Interim report prepared concerning: (i) issues hampering expansion of rural area credit and financial products; (ii) new risk management system and procedures; (iii) new rural strategy and financial product descriptions; (iv) assessment of business processes related to rural financial product operations; and (iv) detailed descriptions of sound rural credit procedures, risk appraisal, and management practices (July 2014)</p>	<p>Consultant reports and project files</p> <p>Study tour report submitted by consultants and implementing agency</p> <p>Consultant report approved by TRCB board and TFB</p>	<p>Assumptions Access to existing rural credit appraisal and management systems and processes</p> <p>Good coordination between ADB, TFB, CBRC, and TRCB</p> <p>TRCB's commitment to share results of the TA with other RCBs</p> <p>Risks Implementing agency is unable to promptly institutionalize new processes</p> <p>Delay in mobilizing qualified consultants</p> <p>Inability to access sufficient baseline data</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
2. Design and development of a data management and IT system plan and rollout schedule to support rural residents and SME credits and rural financial products.	<p>Consulting firm reviews IT and system support, and issues report and plan (June 2014)</p> <p>Presentation to the TRCB board of the new credit risk appraisal and risk management system, IT system plan, and rural finance strategy (August 2014)</p>	<p>Consultant report approved by TRCB board and TFB</p> <p>TRCB board minutes</p>	
3. Institutionalization and dissemination of an effective rural credit risk appraisal, financial product strategy, and risk management system within TRCB and to RCBs in Tianjin.	<p>Development of training modules and initial training completed (September 2014)</p> <p>Workshops on sharing results with other RCBs in Tianjin and key stakeholders in the PRC held, and summary report prepared (November 2014)</p> <p>Final report prepared concerning best practices for rural credit risk management and financial service capabilities (November 2014)</p> <p>Knowledge product on best practices prepared and disseminated (January 2015)</p>	<p>Summary report on training prepared</p> <p>Summary of workshops noted on TRCB website</p> <p>Consultant report approved by TRCB board and TFB</p> <p>TFB and CBRC distribution summary</p>	

Activities with Milestones	Inputs	
1.1 Recruit consultants by December 2013	ADB: \$ 400,000	
1.2 Conduct research on international best practices to compile relevant and useful lessons concerning rural credit risk appraisal and risk management systems for microfinance and SME credit, rural financial institution business strategies and relevant financial product offerings, collateral and risk mitigation alternatives, and rural credit information collection and sharing systems that integrate remote branches (by February 2014)	(TASF-other sources)	
	Item	Amount (\$'000)
1.3 Complete study tour to bank(s) in ADB members that have advanced rural finance risk management systems (by March 2014)	International consultant (10 person-months)	125.00
	National consultants (9 person-months)	80.00
	International and local travel	15.00
	Reports and communication	15.00

1.4 Assess TRCB's overall rural finance business strategy and existing risk appraisal and rural finance risk management processes through interviews and field visits; and design a new system, strategy, product offerings, and procedures (by July 2014)	Study tours	40.00
2.1 Evaluate TRCB's existing rural credit risk appraisal data and IT systems, and complete assessment report and plan (by June 2014)	Seminars and workshops	70.00
3.1 Seek TRCB board approval of the new credit risk appraisal, risk management system, IT system plan, and rural business and financial product strategy (by August 2014)	Resource persons	20.00
3.2 Design rural finance training packages on rural credit risk appraisal for micro and small enterprise credits, client risk profiling and underwriting, loan product design, and data management (by August 2014)	Miscellaneous and support costs	15.00
3.3 Conduct the first round of training (by September 2014)	Contingencies	20.00
3.4 Organize workshop and disseminate the results of the project to other RCBs in Tianjin and key stakeholders in the PRC (by November 2014)	Note: TFB and TRCB will provide support in the form of counterpart staff and management time, office space, full access to all materials, and other in-kind contributions.	
3.5 Prepare knowledge product for publication (by January 2015)		

ADB = Asian Development Bank, CBRC = China Banking Regulatory Commission, IT = information technology, RCB = rural commercial bank, SMEs = small and medium-sized enterprises, TFB = Tianjin Finance Bureau, TRCB = Tianjin Rural Commercial Bank.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultant (10 person-months) ^b	125.00
ii. National consultants (9 person-months)	80.00
b. International and local travel	15.00
c. Reports and communication ^c	15.00
2. Training, seminars, and conferences	
a. Study tours ^d	40.00
b. Seminars and workshops ^e	70.00
3. Resource persons ^f	20.00
4. Miscellaneous administration and support cost ^g	15.00
5. Contingencies	20.00
Total	400.00

Note: The technical assistance (TA) is estimated to cost \$450,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff and management time, office space, full access to all materials, and other in-kind contributions. The value of government contribution is estimated to account for 11% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Includes consulting firm's input of 5 person-months equivalent.

^c Includes translation and interpretation.

^d To a developed ADB member country within Asia and also to Canada or the United States.

^e At least two seminars and workshops will be held.

^f Includes honoraria for resource persons and speakers at conferences and workshops. Specific budget and arrangements are subject to prior approval from the Asian Development Bank.

^g May include interpretation and translation and cost of disseminating the final report and production of a knowledge product.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The consultants will be responsible for producing the technical assistance (TA) outputs and deliverables effectively and on time, consistent with the design and monitoring framework (DMF), and for organizing and carrying out all TA activities, including assessments, field visits, trainings, and workshops. They will also assist in the preparation of a study tour. The implementing agency will supervise the day-to-day work of the consultants and take overall responsibility for training programs, seminars, workshops, and international study tours.

2. All consultants will work under the coordination and monitoring of the output's team leader and in cooperation with the executing agency, implementing agency, and the Asian Development Bank (ADB) project officer. Accordingly, the consultants will maintain close working relations with the implementing agency and ADB, and will regularly discuss project progress and findings. Reports will be of high quality and produced in English, with copies in Chinese also produced by the report delivery dates.

A. International Consultant

3. **Rural credit risk management and financial services expert and team leader** (5 person-months, intermittent). The consultant will create the design and implementation of an improved rural credit risk appraisal and risk management system as well as a rural financial product strategy. The scope involves (i) providing details on good practices of banks that have set up a sound credit risk appraisal and management system with similar types of rural client profiles; (ii) preparing product and procedure design; (iii) assisting in the preparation of material for submission to the board of TCRB and regulatory entities; (iv) formulating the international study tour; (v) interfacing with the information technology (IT) firm on data management and the IT improvement plan; and (vi) leading the preparation of trainings. Reports and work products are to be of high quality and produced in English, with copies in Chinese. The expert will have suitable tertiary qualifications in banking and microfinance, with at least 10 years of experience working in banking credit risk management and operational oversight, and specific work experience in designing credit risk appraisals and risk management systems and strategies that cover rural-based clients. The expert will have strong English language writing and speaking skills, and should have worked in developing countries on risk management and rural finance with financial institutions. Experience in Asia, particularly with rural sectors, and in the People's Republic of China (PRC), will be an advantage.

4. The consultant will perform the following tasks:

- (i) Conduct research on international best practices for rural credit risk appraisal, risk management systems, and rural strategies and products to compile relevant and useful lessons for the Tianjin Rural Commercial Bank (TRCB) in written form.
- (ii) Along with the national consultants, evaluate the TRCB's existing credit risk appraisal, risk management system, and rural finance business strategy and products through interviews and field visits to identify and document gaps.
- (iii) Take the lead in formulating the study tour to bank(s) that have leading credit risk appraisal and management for rural lending in similar environments.
- (iv) Oversee and coordinate the work of the national consultants along with the TRCB working group to ensure consistency of approach and timely output.
- (v) Take the lead in overseeing the national consultants to prepare a new rural credit risk management system and risk analysis and underwriting process.

- (vi) Prepare detailed descriptions of sound rural credit procedures, detailed process maps, and credit risk appraisal and management practices, and incorporate best practices in collateral and risk mitigation alternatives for rural clients. Incorporate well-designed borrower screening and underwriting processes, proper loan structuring and pricing capabilities, sound centralized monitoring mechanisms, effective collection methods, and capacity for active operational oversight and risk control. Integrate findings and recommendations of the IT firm.
- (vii) Prepare a new rural financial services strategy and product profiles. Outputs will include preparation of product descriptions and their marketing strategies.
- (viii) Prepare a summary report on best practices, an interim report, and a final report as described in the DMF.
- (ix) Facilitate management and TRCB board understanding of the new system, products, and procedures.
- (x) Facilitate submission of the TA results to the Tianjin Finance Bureau (TFB) and China Banking Regulatory Commission (CBRC) as needed.
- (xi) Assist in organizing TRCB trainings and take the lead in preparing the final workshop.
- (xii) Complete a comprehensive, publication-ready, best practice knowledge product for use by ADB and other rural commercial banks (RCBs) on rural finance issues and concerns, recommendations for leading rural finance risk management systems, and rural strategy and product offerings.

B. National Consultants

5. **Rural credit risk management specialist** (4.5 person-months, intermittent). The consultant will facilitate the risk management framework and systems for rural microfinance and small and medium-sized enterprise (SME) operations. The scope involves (i) providing details on risk assessment and underwriting for rural finance of the types the TRCB wants to engage in and expand into; (ii) providing related inputs to the design, testing, and implementation of the risk management systems; (iii) interfacing with the IT firm on systems and IT improvements for data management and monitoring; and (iv) guiding the training of staff in the new framework. Reports and work products are to be of high quality and produced in English, with copies in Chinese. The expert will have suitable tertiary qualifications in banking and finance, with at least 5 years of experience working in banking credit risk management and operational oversight. The expert will be fluent in Chinese and also have English language writing and speaking skills, and should have worked in the PRC on credit risk management systems. Work on rural sector finance is preferable and experience internationally is desirable.

6. The consultant will perform the following tasks in collaboration with the team leader and other consultants as appropriate:

- (i) Conduct research on the approaches of the leading RCBs in the PRC in implementing their rural credit risk appraisal and management systems by compiling relevant and useful lessons for the TRCB in a written summary report.
- (ii) Along with the other consultants, evaluate the TRCB's existing rural credit risk appraisal and risk management system through interviews and field visits to identify gaps, and prepare a detailed written report.
- (iii) Assist in formulating the study tour to bank(s) that have implemented leading credit risk appraisal and management for rural lending in similar environments.
- (iv) Work with the other consultants and design a new rural credit risk management system, risk analysis, and underwriting process.

- (v) Prepare detailed descriptions of sound rural credit procedures, detailed process maps, and credit risk appraisal and management practices; and incorporate best practices in collateral and risk mitigation alternatives for rural and microfinance clients. Incorporate well-designed borrower screening and underwriting processes, proper loan structuring and pricing capabilities, centralized monitoring mechanisms, effective collection methods, and the means for active operational oversight and risk control. Integrate findings and recommendations of the IT firm. Lead in adapting documents for usability in the TRCB's internal operations.
- (vi) Ensure that the design of the new rural credit risk management system meets the needs of the TRCB in providing financial services to rural consumers and rural SME clients in Tianjin Municipality.
- (vii) Facilitate management and TRCB board understanding of the new system, products, and procedures.
- (viii) Facilitate submission of the TA's results to the TFB and CBRC as needed.
- (ix) Take the lead in organizing training for the TRCB and assist in preparing the final workshop regarding the new rural risk management system.
- (x) Take the lead in interpreting and presenting findings and recommendations to other RCBs regarding a sound rural risk management system.
- (xi) Be responsible for the relevant final content and accuracy of the Chinese versions of all reports and key documents.
- (xii) Prepare a summary report on best practices, an interim report, and a final report as described in the DMF along with the other consultants.

7. **Rural financial product and strategy specialist** (4.5 person-months, intermittent). The consultant will facilitate the development of an enhanced rural credit and financial services strategy and create new products to meet the needs of rural residents in Tianjin. The expert will have suitable tertiary qualifications in banking and finance, with at least 5 years of experience working in rural finance. Reports and work products are to be of high quality and produced in English, with copies in Chinese. The expert will be fluent in Chinese and have English language writing and speaking skills, and should have worked in the PRC with financial institutions dealing with microfinance and rural financial sectors. Experience internationally is desirable.

8. The consultant will perform the following tasks in cooperation with the international consultant and other national consultants:

- (i) Conduct research on the approaches of the leading RCBs in the PRC in designing rural financial services and products by compiling relevant and useful lessons for the TRCB in a written summary report.
- (ii) Along with the other consultants, evaluate the TRCB's existing rural financial strategy and product offerings through interviews and field visits to identify gaps, and prepare a detailed written report.
- (iii) Assist in formulating the study tour to bank(s) that have implemented leading rural financial product strategies in similar environments.
- (iv) Work with the other consultants and prepare a new rural financial service strategy and expanded product offerings. Prepare detailed descriptions of products with their marketing plan, system, and training needs. Take the lead in adapting these documents for usability in the TRCB's internal operations. Integrate findings and recommendations of the IT firm.
- (v) Ensure that the new rural business strategy and financial product mix meet the needs of the TRCB in providing financial services to rural consumers and rural SME clients in Tianjin.

- (vi) Facilitate management and TRCB board understanding of the new system, products, and procedures.
- (vii) Facilitate submission of the TA's results to the TFB and CBRC as needed.
- (viii) Take the lead in organizing training for the TRCB and assist in preparing the final workshop regarding the new strategy and product offerings.
- (ix) Take the lead in interpreting and presenting findings and recommendations to other RCBs regarding best practices in rural financial service strategies and products.
- (x) Be responsible for the relevant final content and accuracy of the Chinese versions of all reports and key documents.
- (xi) Prepare a summary report on best practices, an interim report, and a final report as described in the DMF along with the other consultants.

C. Consulting Firm

9. **Data management and information technology firm** (5 person-months equivalent). The consulting firm will facilitate the assessment of and upgrade the plan for data management and monitoring of rural credit risk and financial service operations of the TRCB. The scope involves interfacing with the TRCB the consultant team on data management; assessment of IT systems' capacity; determination of future requirements; and preparation of detailed plans for upgrade of hardware, software, and staff training. A detailed cost estimate must also be prepared to ensure successful installation of proper rural credit risk monitoring and management systems. All reports and work products are to be of high quality and produced in English, with copies in Chinese. The firm will have prior experience working in banking risk management in one or more major banks in the PRC. It will have designed and implemented IT systems that can be easily accessible and utilized by bank staff in remote and rural branches.

10. The firm will perform the following tasks in coordination with other consultants:

- (i) Prepare a detailed written report on best practices and sound data systems for rural credit risk management in operation in comparable banks.
- (ii) Make a detailed assessment of the existing data systems and IT arrangements to determine the changes needed to support the TRCB's new rural risk management system and new rural financial strategy and product offerings.
- (iii) Prepare written recommendations for how existing data systems, databases, and IT arrangements may be used to support the new rural credit risk management system and rural financial strategy and products on a temporary basis pending completion of system upgrades.
- (iv) Prepare and hold a training session for TRCB staff regarding data management and IT system issues pertinent to them regarding the new rural credit risk management system and rural financial strategy and products.
- (v) Prepare a detailed report and project plan with timeline related to the data needs for rural credit risk and risk management and rural product development. The report and plan will fully integrate remote rural branches. Suggest improvements, changes, and estimated cost outlay for data management in order to meet current and anticipated needs for the TRCB's rural credit and financial services strategy.
- (vi) Discuss the report with the TRCB and revise and finalize based on inputs for incorporation into the overall TA outputs.