

Terms of Reference

IMPLEMENTATION OF ALM's RECOMMENDATIONS & REPORTING CURRENCY ANALYSIS OF THE BANK

1. BACKGROUND

- 1.1 The African Development Bank (AfDB) is a regional multilateral development finance institution established in 1963 with a mandate to further the economic development and social progress of African Countries, individually and collectively. It has 54 regional member countries and 27 non-regional shareholders from Asia, Europe and the Americas. It cooperates with a large network of international development partners.
- 1.2 The stated Vision of the AfDB is to be the leading development finance institution in Africa, dedicated to assisting African Regional Member Countries in their poverty reduction efforts. Client Focus, Quality, Teamwork and Best Practices are the four corporate values essential to the realization of the Vision.
- 1.3 Over the past years, the Bank has positioned itself as the first lender to the African continent and true development partner for Regional Member Countries.
- 1.4 The 7th General Capital Increase (GCI-VII) was approved by the Bank's Board of Governors in October 2019, more than doubling the Bank's capital base to about \$208 billion. The Bank is revising its Long-Term Financial Sustainability (LTFS) Framework to ensure that the approved GCI resources last over the agreed GCI implementation horizon, and to establish a high level of operating efficiency through an effective administrative cost-control mechanism, while ensuring that the Bank's AAA credit rating is not endangered.
- 1.5 As part of the work of the LTFS, a consulting firm was recruited to review the financial and risk management policies of the Bank. The firm made recommendations that must be implemented to complement the long-term financial sustainability framework.
- 1.6 Alongside the LTFS is the issue of the Bank's reporting currency. The current reporting currency (Unit of Account) has issues that include:
 - Currency risk management
 - Translation risk issues

2. SCOPE OF THE SERVICES

2.1 Implementation of ALM's Recommendations:

- Lead the implementation of the Consulting Firm's (Moody's Analytics) recommendations from the review of the Financial and Risk Management policies of the Bank. The recommendations span the following key areas:

- Liquidity Risk
 - Reduce time lag of liquidity risk report from 90-day lag to 30-day lag.
 - Update the ALM Policies & Guidelines to include the daily comparison of estimated eligible liquidity to the PML
- Currency and Counterparty Risk.
 - Resolve the inconsistency between 1-year time horizon of market VaR and 6-month time horizon of ALM VaR.
 - Set explicit limits for net asset holding in non-SDR currencies.
- Stress Testing
 - Liaise with PGRF to establish an enterprise-wide stress test that takes into consideration all material risks including operational risk, pension risk and liquidity risk.
- Pricing Policies.
 - Liaise with PGRF to establish an ex-ante RAROC to determine pricing that will ensure that the expected returns are in alignment with the target rate of return.
 - Use of expected credit loss in the pricing framework to ensure that the risk is adequately captured in the pricing.
 - An independent review of the methodologies used in pricing to ensure that the models are fit for purpose.
- Strengthening the financial and risk management framework to ensure it's robust and alignment of the various policies.

The detailed report on Moody's Analytics recommendations will be provided to the consultant during execution of the assignment.

2.2 Reporting Currency of the Bank

- Review the reporting currency of the Bank and assess its continuing adequacy and relevance vis-à-vis the evolution of the Bank's activities
- Evaluate the pros and cons for using the Unit of Account (UA) as the Bank's reporting currency
- Elaborate the additional values and benefits to the Bank if changing the current reporting currency by replacing it with the United States dollars (USD)
- Perform comparative analysis using the current Unit of Account (UA) and the USD as reporting currency for the Bank – Pros and Cons of selected reporting currency
- Benchmark reporting currency with peer MDBs

- Assess and analyze the impact of reporting currency on currency risk management (mainly translation risks)
- Provide recommendations with support from analytics above

2.3 Finalizing LTFS deliverables requested by the Board of Directors

Finalize LTFS deliverables requested by the Board of Directors in the following areas:

- Sovereign Loan Pricing
- Cost-to-Income ratio
- Cost Containment Framework

3. DELIVERABLES

In the course of its engagement, the Consultant should implement and deliver the following:

- Lead the implementation of the recommendations from the review of the Financial and Risk Management policies of the Bank;
- Recommendations from the study of the Bank's reporting currency;
- Finalization of LTFS deliverables requested by the Board of Directors;
- Road map and action plans to implement recommendations; and
- Final reports for all deliverables

4. EXPERIENCE OF THE CONSULTANT

- 4.1 The Consultant shall be a professional of high repute with at least 10 years working experience in the review, formulation, development and implementation of long-term financial sustainability framework.
- 4.2 A working experience in Financial Strategy, Sustainable Capital Resources, and Capital Management and Adequacy are added advantage;
- 4.3 Knowledge of the African Development Bank and its operations would be an advantage.
- 4.4 Knowledge of the operations of Multilateral Development Banks is an added advantage;
- 4.5 Professional certificate in Finance/Accounting is an added advantage;
- 4.6 He/she should be fluent in English or French with working knowledge in the other language.

5. DURATION

The duration for the Assignment will be **six (6) months** and planned to start from February 2022 and end in July 2022.

6. LOCATION

The work will be carried out mostly onsite and the consultant will be based in Abidjan, Cote d'Ivoire. However, based on the global impact of COVID-19 on work environments, working remotely will be discussed in the later stages of the hiring process.

7. REPORTING REQUIREMENTS AND TIME SCHEDULE FOR DELIVERABLES

The Consultant will report to the Financial Risk Management Division Manager (FIFM1). The following reporting standards will be adhered to:

- (a) An initial report detailing the methodology and timeline to undertake the Assignment, followed by periodic progress reports detailing advancement versus initial objectives, as well as issues encountered which require remedial action by the Bank for deadlines to be adhered to.
- (b) The initial report is expected five (5) calendar days after the kick-off of the consulting assignment; progress reports are expected every two weeks; all such reports will be submitted in PDF by email.
- (c) Final reports and the framework shall be sent to the Financial Management Division Manager (FIFM1) via email.