

**REQUEST FOR EXPRESSION OF INTEREST FOR AN INDIVIDUAL
CONSULTANT**

***“IMPLEMENTATION OF THE LONG-TERM FINANCIAL SUSTAINABILITY
FRAMEWORK OF THE BANK”***

AFRICAN DEVELOPMENT BANK

Avenue Joseph Anoma, 01 B.P. 1387, Abidjan, CÔTE d'IVOIRE

Financial Risk Management Department (FIFM1)

E-mail: J.DJOFACK@AFDB.ORG; S.ABANKWA@AFDB.ORG

Telephone: (+225) 20 26 12 71/ (+225) 20 26 46 69

1. The African Development Bank (AfDB) hereby invites Individual Consultants to indicate their interest in the following Assignment: ***Implementation of the Long-Term Financial Sustainability (LTFS) Framework of the Bank.***

2. The services to be provided under the Assignment include:
 - To finalize the LTFS standalone papers already reviewed in 2020;
 - To review the Sovereign Loan Pricing of the Bank;
 - To 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;
 - To review and recommend a reporting currency of the Bank Group;
 - To review the currency risk management of the African Development Fund (ADF);

The key activities are as follows:

Implementation of the Long-Term Financial Sustainability (LTFS)

- Finalize the LTFS standalone papers already reviewed in 2020, which include:
 - Cost Sharing Formula of the Bank
 - Cost Containment Framework
 - Cost-to-Income Ratio
 - Principles of Net Income Allocation
 - Sovereign Loan Coverage Ratio

- Liquidity Policy of the Bank
- Income Generation Capacity of the Bank (other sources of income for the Bank)
- Development of Resource Efficiency Metrics
- Development of the Financial Performance Framework (RAROC)
- Review of the Sovereign Loan Pricing
 - Review the current Sovereign Loan Pricing for its appropriate lending income spread
 - Propose refinements to cover sovereign full costs (sovereign operational and non-operational costs)
 - Propose refinements to cover the cost of doing business (impairments and expected losses)
 - Benchmark Sovereign Loan Pricing with peer Multilateral Development Banks (MDBs)
- 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:
 - Asset and Liability Management (ALM) Policies
 - Financial and Risk Management policies
 - Stress Testing Framework
 - Pricing Policies
 - Financial Projection Model
 - Impact of LIBOR Transition

Review of the Reporting Currency of the Bank

- Review the reporting currency of the Bank's Group and assess its continuing adequacy and relevance vis-à-vis the evolution of the Bank's Group activities
- Evaluate the pros and cons for using the Unit of Account (UA) as the Bank's Group reporting currency
- Elaborate the additional values and benefits to the Bank's Group if changing the current reporting currency by replacing it with the United States dollars (USD)
- Perform comparison analysis using the current Unit of Account (UA) and the USD as reporting currency for the Bank (ADB) and the African Development Fund (ADF) – 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

Currency Risk Management of the African Development Fund (ADF)

A full review of the ADF currency risk management and its ALM to improve the current framework will include:

- An extended analysis to evaluate the cost/benefit of aligning the Net Development Resources of the Fund to the SDR basket rather than the alignment of the Fund's Net Assets;
- Analyse the pros and cons of a defined reporting currency which reflects the borrower countries preferences such as USD for instance;
- Evaluate the impact on the translation gains or losses for disbursing to countries in the currencies that are available rather than leaving countries to choose the disbursement currencies; and
- Provide recommendations.

3. More details about the scope of services required under the assignment are shown in Annex 1 (Terms of Reference).

4. The **Financial Risk Management Division (FIFM1)** invites eligible Individual Consultants to indicate their interest in providing the above services. Interested consultants shall provide information on their qualifications and experience demonstrating their ability to provide the services (**documentation, references for similar services, experience in comparable assignments, etc.**).

5. Essential specialized skills/competences:

- The Consultant shall be a professional of high repute, who has at least 10 years working experience in the formulation and development of financial sustainability framework, cost containment through operating efficiency, and performance management;
- Professional certificate in Finance/Accounting is an added advantage;
- A working experience in Financial Strategy, Sustainable Capital Resources, Capital Adequacy, and reporting currency of a Multilateral Development Bank are added advantage;
- He/she should be fluent in English or French with working knowledge in one of the other language.

6. The eligibility criteria, the establishment of a short list and the selection procedure shall be in conformity with the **Bank's Rules and Procedure for the Use of Corporate Consultants**. Please, note that interest expressed by a Consultant

does not imply any obligation on the part of the Bank to include it in the shortlist.

7. The estimated duration of services is **six (6) months** starting from January 2021. Interested Consultants may obtain further information at the address below during office hours: **09:00 to 17:00 hours, Abidjan Local Time**.
8. Expressions of interest must be sent **by email** at the address below before **Thursday, 10 December 2020, 17:00 hours, Abidjan Local Time** and mention **“Expression of Interest for the Implementation of Long-Term Financial Sustainability Framework of the Bank”**.

For the attention of: **Financial Sustainability Framework Recruitment Team**
African Development Bank
Financial Risk Management Department (FIFM1)
Avenue Joseph Anoma, 01 B.P. 1387,
Abidjan, CÔTE d'IVOIRE
Tel: (+225) 20 26 12 71 / (+225) 20 26 46 69
Email: J.DJOFAK@AFDB.ORG; S.ABANKWA@AFDB.ORG

ESTABLISHMENT OF THE SHORTLIST

9. A shortlist of three to six Individual Consultants will be established at the end of the request of expressions of interest. The Consultants on the shortlist will be judged on the following criteria on the basis of their updated resume.

• General qualifications and adequacy for the proposed Assignment	20%
• Similar experience in the area of expertise of the Assignment	60%
• Experience with the Bank or other international donors	10%
• Language proficiency	5%
• Knowledge of the Region (environment of the Assignment)	5%

Terms of Reference

IMPLEMENTATION OF THE LONG-TERM FINANCIAL SUSTAINABILITY FRAMEWORK 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 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 The long-term financial sustainability framework drives the strategic management of the Bank's resources and development related activities. Management and the Board of Directors regularly make decisions relating to lending volumes, mix of lending instruments, trade-offs between sovereign and non-sovereign operations, loan pricing, net income distributions and review of the Bank's capitalization level. Such decisions have the ultimate goal of maximizing the Bank's development impact in a financially sustainable manner, and are informed, amongst others, by its strategic operational priorities, identified lending opportunities (pipeline of operations), regional member countries' financing needs, the Bank's financial position and rating agencies assessment.
- 1.6 The financial sustainability model therefore integrates into a coherent framework, all the decision elements and underlying financial assumptions that have a bearing on the Bank's sustainability of capital resources and operating efficiency.
- 1.7 The major building blocks of the long-term financial sustainability framework includes the strategic business objectives of the Bank, key components such as sustainability of capital resources, operating efficiency, and risk management

policies. The framework also includes levers and limits that trigger the levers through standardized monitoring reports.

- 1.8 The key components of the Financial Sustainability Framework come with standalone papers that must be completed for the Board of Director's approval alongside the approval of the Long-Term Financial Sustainability Framework (LTFSF).
- 1.9 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.
- 1.10 Alongside the LTFSF is the issue of the Bank's reporting currency. The current reporting currency (Unit of Account) has issues that include:
 - Structural imbalance between encashments and disbursements in some currencies of the African Development Fund (ADF)
 - Available liquidity constraints to execute corrective alignment trades for ADF to mitigate translation risk issues
 - Translation risk issues

2. SCOPE OF THE SERVICES

2.1 Implementation of the Long-Term Financial Sustainability (LTFS)

- Finalize the LTFS standalone papers already reviewed in 2020, which include:
 - Cost Sharing Formula of the Bank
 - Cost Containment Framework
 - Cost-to-Income Ratio
 - Principles of Net Income Allocation
 - Sovereign Loan Coverage Ratio
 - Liquidity Policy of the Bank
 - Income Generation Capacity of the Bank (other sources of income for the Bank)
 - Development of Resource Efficiency Metrics
 - Development of the Financial Performance Framework (RAROC)
- Review of the Sovereign Loan Pricing
 - Review the current Sovereign Loan Pricing for its appropriate lending income spread
 - Propose refinements to cover sovereign full costs (sovereign operational and non-operational costs)
 - Propose refinements to cover the cost of doing business (impairments

- and expected losses)
 - Benchmark Sovereign Loan Pricing with peer Multilateral Development Banks (MDBs)
- 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:
 - Asset and Liability Management (ALM) Policies
 - Financial and Risk Management policies
 - Stress Testing Framework
 - Pricing Policies
 - Financial Projection Model
 - Impact of LIBOR Transition

2.2 Reporting Currency of the Bank

- Review the reporting currency of the Bank's Group and assess its continuing adequacy and relevance vis-à-vis the evolution of the Bank's Group activities
- Evaluate the pros and cons for using the Unit of Account (UA) as the Bank's Group reporting currency
- Elaborate the additional values and benefits to the Bank's Group if changing the current reporting currency by replacing it with the United States dollars (USD)
- Perform comparison analysis using the current Unit of Account (UA) and the USD as reporting currency for the Bank (ADB) and the African Development Fund (ADF) – 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 Currency Risk Management of the African Development Fund (ADF)

A full review of the ADF currency risk management and its ALM to improve the current framework will include:

- An extended analysis to evaluate the cost/benefit of aligning the Net Development Resources of the Fund to the SDR basket rather than the alignment of the Fund's Net Assets
- Analyse the pros and cons of a defined reporting currency which reflects the borrower countries preferences such as USD for instance

- Evaluate the impact on the translation gains or losses for disbursing to countries in the currencies that are available rather than leaving countries to choose the disbursement currencies
- Provide recommendations

3. DELIVERABLES

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

- Finalize the standalone papers of the LTFS;
- Lead the implementation of the recommendations from the review of the Financial and Risk Management policies of the Bank;
- Lead the implementation of the recommendations from the review of the Financial projection model including the assumptions of the model;
- Recommendations from the review of the Sovereign Loan Pricing with a final report;
- Recommendations from the study of the Bank's reporting currency;
- Recommendations from the currency risk management of ADF;
- Road map and action plans to implement recommendations; and
- Final reports (2) with the implementation of the LTFS and the reporting currency of the Bank.

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 January 2021 and end in June 2021.

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.